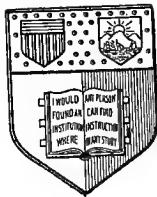


B2334
C28



New York
State College of Agriculture
At Cornell University
Ithaca, N. Y.

Library

Cornell University Library
LB 2334.C28

A comprehensive plan of insurance and an



3 1924 013 004 811

mann

fidential

1. 2 53

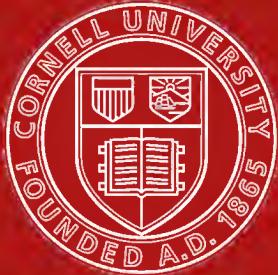
2 2

**THE CARNEGIE FOUNDATION
FOR THE ADVANCEMENT OF TEACHING**



**A COMPREHENSIVE PLAN
OF INSURANCE AND ANNUITIES
FOR COLLEGE TEACHERS**

1916



Cornell University Library

The original of this book is in
the Cornell University Library.

There are no known copyright restrictions in
the United States on the use of the text.

THE CARNEGIE FOUNDATION
FOR THE ADVANCEMENT OF TEACHING

A COMPREHENSIVE PLAN OF INSURANCE
AND ANNUITIES FOR COLLEGE TEACHERS



576 FIFTH AVENUE
NEW YORK CITY

1916

M. W.

@
L B 2334
C 28

262402

D. B. UPDIKE • THE MERRYMOUNT PRESS • BOSTON

CONTENTS

	PAGE
Introduction	v
Ten Years of Administration	3
Pensions and Annuities	5
The Origin of Pension Systems	6
The Social Philosophy of the Pension System	9
Is a Pension System for College Teachers Justified?	11
The Life Hazards of the College Teacher	16
Who is Responsible for the College Teacher's Protection?	18
The Function of Life Insurance and its Possibilities	22
The Cost of an Old Age Annuity	28
Illustrations from the Lives of Representative Teachers	31
Are Pensions Wages?	34
Teachers' Investments	35
The Financial Load upon the College	37
The Accrued Liabilities	41
The Risk of Disability	43
The Teacher's Coöperation	45
The Coöperation of the College, the Teacher, and the Carnegie Foundation	48
The Present Pension System of the Carnegie Foundation	52
The Desires of Teachers	58
The Opinions of Retired Teachers	59

INTRODUCTION

THE paper which follows is a confidential report to the trustees of the Carnegie Foundation and to the teachers of the colleges and universities associated with the Foundation. It is here offered for critical study and discussion and to invite a full expression of opinion upon the questions involved.

This study is the result of ten years of experience in the administration of the existing pension system and of the examination of pension systems throughout the world. It is founded upon exhaustive actuarial computation.

The reason for the existence of such a report lies in the desire to correct the weaknesses of the present system as experience has revealed them, and to create a feasible and sound pension system available not only to the colleges at present associated with the Foundation, but available also to the great body of college teachers.

The chief weaknesses of the existing system of pensions maintained by the Carnegie Foundation are these:

1. Under the present rules, a teacher acquires protection for himself and his family only after twenty-five years of service as a professor or thirty years of service as professor and instructor. He is nearly sixty years of age before the pension system affords him protection even against disability. Of the teachers who begin as instructors at the age of thirty, nearly half will die before reaching a pensionable age. During the period of their productive life, their families receive no relief from the pension system. It is precisely at this period that some form of protection against the hazard of the loss of the bread-winner is needed. The most pathetic cases presented to the Carnegie Foundation—cases which unfortunately lie without its rules—are those in which a wife with young children is left helpless by the death of her husband. A considerable proportion of college teachers carry no insurance; and, at the cost of insurance as now accessible to them, the average teacher is able to carry an amount quite inadequate as a protection to his wife and children.

2. Quite naturally the Founder and trustees approached the question of pensions from the standpoint of the man about to leave the service. It is now clear that if the pension system is to provide some security for the great body of teachers and for their families against the hazards of death, of disability, and of helplessness in old age, the problem must be approached from the standpoint of the teacher entering the service.

3. The endowment placed in the hands of the trustees was given in a most generous spirit, and was intended to pay pensions for college teachers under rules such as the trustees might consider wise. There is no reason why the most high-spirited and sensitive teacher should not accept a pension given in accordance with the present rules. These pensions have been accepted by American teachers in this spirit.

When the study of the pension system is approached, however, from the standpoint of the man entering the service, a true social philosophy no less than sound economic reason points to a system to which both the teacher and the institution which he

INTRODUCTION

serves contribute. The history of pensions also makes it clear that it is to the financial interest of the teachers that the payment of pensions be separated from the question of salary. A large correspondence with teachers in the associated colleges makes it clear, moreover, that they would prefer to bear a share in a sound insurance and pension system if a plan within their means can be devised and assured.

4. From the beginning it has been pointed out in the reports of the president that any pension system resting upon a fixed endowment must inevitably reach its limit, and that the resources of the Foundation, and any addition likely to be made to them, would provide a pension system in only a limited number of institutions. Seventy-three universities and colleges in the United States and Canada at present share in the benefits of the pension endowment. The total income available for pensions is approximately \$799,000. Last year, the cost of the pension system in these seventy-three institutions amounted to \$554,000. It is pointed out later that the mortality experience of the Foundation during these ten years has been far below the most conservative tables, and the cost correspondingly greater.

Mr. Carnegie has placed behind the institutions he has founded a great corporation with an income far beyond the load which would be imposed by the present pension system. It is, however, clear that the Carnegie Foundation would not be justified in asking this corporation to carry for an indefinite future a continually growing financial load for a pension system available to a very limited number of institutions. A fiscal policy must be evolved under which the Foundation shall be able to conduct a pension system financially sound, within its own resources, and offering a security to teachers equivalent to that of an insurance policy in a sound company. The college teacher who looks ten, twenty, or thirty years ahead to the benefits of a pension system will be satisfactorily protected only when he has a contract. The existing pension system cannot offer this.

5. The maintenance of a free pension system in a limited number of colleges tends to restrict the migration of teachers from one college to another. It is in the interest of education that such migrations be free, and that no tariff wall be put in the way of the transfer of a teacher from one college to another. It is clear also in the light of ten years' experience that the selection of a small group upon which to confer free pensions to the exclusion of others involves many other difficulties. In a given state or province, for example, no conclusive reason can be offered in some cases for discriminating in the matter of pensions between college A and college B. A comprehensive pension system admitting the teachers of all institutions of recognized standing, and offering a fair opportunity to the individual teacher as well, is clearly in the interest of the great body of teachers.

6. In view of these considerations, the important question arises: Can a contributory system be devised in which the teacher, his college, and the Carnegie Foundation may coöperate; which shall rest upon a true social philosophy and upon a sound financial basis; which shall offer a fair measure of protection to the teacher and his

family during his entire academic career; which shall be capable of extension to the great mass of college teachers, and shall with all this lie within the financial ability of the teacher and his college? It is this fundamental and far-reaching question which the report and the ten years' study that lie back of it have undertaken to answer.

7. A system of protection for college teachers is here proposed within the reach of the teacher's financial ability and comparable in many cases with the sum now paid out by teachers for inadequate insurance. The plan is based upon a combination of low-priced insurance with an annuity. To carry out the plan will require the establishment of a sub-agency of the Foundation with sufficient capital to issue such insurance and annuity policies. The plan is worked out in detail in the report which follows. It offers a solution of the pension question which is believed to be just, adequate, and available to the great body of American teachers. The fundamental principles adopted here are the following, and are applicable to any relief system maintained for groups of the body politic, whether they be industrial workers or college teachers:

- I. A definite estimate of the life hazards against which protection is sought must form the first step in determining the pension or relief system to be adopted.
- II. The system must be constructed from the point of view of the man or woman entering the service rather than from the point of view of the one leaving it.
- III. A solution, to be complete, must rest upon some combination of low-priced insurance with an annuity, and must offer to the participant a contract.
- IV. As our social order is now organized, the responsibility for a system of protection for men and women on fixed pay rests jointly upon employee and employer.
- V. So far as pensions for college teachers are concerned, the Carnegie Foundation has a direct responsibility, and will discharge that responsibility best if it is able to inaugurate a system of protection for college teachers against the capital hazards of their professional life, which is not only socially just and economically feasible, but which will be available to the great body of college teachers.

8. This plan, if adopted, would substitute for the present system an entirely different one. The substitution of the one system for the other involves a complete readjustment. At the inauguration of the Foundation, it was assumed that experience and larger knowledge of the pension question would in the future make changes necessary. It was in view of this conviction that the following statement was incorporated among the rules for the granting of retiring allowances:

"The Carnegie Foundation for the Advancement of Teaching retains the power to alter these rules in such manner as experience may indicate as desirable for the benefit of the whole body of teachers."

It goes without saying that the trustees will meet to the utmost of their power the expectations created by the present rules among the teachers in the associated

INTRODUCTION

institutions. It will require a number of years to change from the one system to the other. The actuaries have suggested that men below the age of forty-five could to their own advantage transfer from one system to the other. Whether twenty years is a reasonable notification of a change in the rules is a matter which will be considered in the most serious and conscientious manner by the trustees.

At their annual meeting, on November 17, 1915, the trustees received and discussed this report, but took no action concerning it except to pass the following resolution:

Whereas, The benefit of the present pension system of the Carnegie Foundation is necessarily confined to a limited number of institutions and does not furnish to the teachers in those institutions adequate protection for themselves and their families; and

Whereas, This system and any other non-contributing pension system involves constantly growing financial burdens, increasing the discrimination between associated and non-associated institutions, and creating an annual charge which may ultimately become too great for the fund to bear,

Resolved, That the Board of Trustees approve the efforts of the president to devise a contributory pension system which without unfairness to the just expectations of institutions or individuals under the present rules shall enable the Foundation to expand its sphere of usefulness and ensure its permanent ability to meet all financial obligations expressed or implied;

Further Resolved, That the Board present to the associated institutions for their careful consideration a report of the President of the Foundation upon a comprehensive pension system, to be applied in the future, with the request that, if they deem it desirable, they submit alternative plans or suggestions; and the Board herewith announce that whatever plan is finally adopted will be devised with scrupulous regard to the privileges and expectations which have been created under existing rules.

In compliance with this request, a copy of this paper is sent to each trustee and to each teacher in the associated institutions. Any suggestions made by them will be laid before the trustees before action is taken.

It remains to be said that the reform of the Carnegie Foundation system of pensions, in such wise as to make it available to the general body of college teachers upon a broad social and economic basis, has far greater significance than the protection of a single group of professional workers, important as this object is. The question of pensions has become in the last ten years a serious social, political, and economic question in Great Britain, the United States, and the colonies of the British Empire. Civil servants are seeking for pensions at the hands of the central governments or of the separate states; public school teachers are agitating for similar favors. Old age pensions for all needy citizens are being asked in many quarters. A widespread sentiment has been created that thru pension legislation something can be had for nothing. The trend of this legislation is paternalistic and undemocratic, and in most cases

INTRODUCTION

ix

in disregard of sound economic experience. No greater service can be accomplished at this time, either by the trustees of the Foundation or by the teachers in American colleges, than to set forth in clear and simple terms a conception of pension administration which is just, sound, and feasible, and which appeals to the sense of individual responsibility and of personal independence. Lavater's dictum that he who reforms himself does most to reform the public is quite as true of associations of men as of individuals. The essential question is: Are the fundamental principles set forth in the following report those upon which sound pension administration and legislation must rest? In the determination of this question the trustees ask the coöperation of every teacher and trustee in the institutions associated with the Foundation.

HENRY S. PRITCHETT.

October, 1915.

**A COMPREHENSIVE PLAN OF INSURANCE AND ANNUITIES
FOR COLLEGE TEACHERS**

TEN YEARS OF ADMINISTRATION

THE Carnegie Foundation for the Advancement of Teaching completes with the present year the first decade of administration of the gifts of Mr. Andrew Carnegie. In the Seventh Annual Report I have described in detail the process by which the trustees of the Foundation were led to adopt the existing system of pensions. In that report were mentioned the various plans which at the beginning were considered by the Founder and by the trustees, and the reasons which induced the trustees, with the consent and coöperation of the Founder, to establish a pension system upon generous terms which in the nature of the case could be extended to only a limited number of American colleges and universities.

During these ten years the trustees have followed carefully the working of this system of pensions, and have studied the pension systems of the world and their literature. Upon the actuarial and statistical side this literature is abundant, but there is little in it to throw light upon the large fundamental decisions which the trustees were called upon to make. When the Foundation was inaugurated even the actuarial and mortality statistics were meagre. Little was known of the vital statistics of American college teachers. The effect of the payment of pensions from the gift of a single donor was itself a new question in university administration. In their effort to administer these pensions the trustees entered a field of university legislation and administration for which there were no precedents.

At the inauguration of the Foundation the attention of the trustees and of the Founder was focused upon the aged teacher. His service and his need called for some humane and just method of dealing with the teacher whose usefulness had decreased by reason of old age. All the provisions of the pension rules as determined by the trustees looked toward the problem of the worn-out or aged teacher and his dependents. Under these circumstances the effect that the establishment of a definite system of free pensions might have upon younger men was but little considered. No harm is done when thru private philanthropy or by means of a college endowment the old, infirm teacher is provided with a competence during his declining years. It is, however, not so clear what the effect will be upon the man of twenty-five or thirty or thirty-five in holding out to him this expectation throughout his teaching career. To such a man the protection of a pension system as at present inaugurated is postponed to the distant future. The majority of these younger men will never enter into the possession of a pension, but the promise of it during thirty or forty years of their academic life will affect their relations in ways not so evident ten years ago.

Mr. Carnegie, in the founding of the five institutions which bear his name, made two provisions which involved a long look into the future.

In the first place he left with the boards of trustees of these institutions the widest discretion in determining the function and work of their respective foundations. They

4 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

have not only the power but the obligation to change completely the application of their endowments if in time such changes seem justified.

In addition he created a great trust fund,—the Carnegie Corporation,—a majority of whose trustees are the heads of these five earlier institutions. By his direction the very large income of this fund is to be used first for the proper and reasonable development of the institutions that he has founded, and secondly to aid those causes which in the judgment of the trustees make for the upbuilding of men in our nation.

These provisions impose upon the trustees and heads of the five institutions extraordinary duties and responsibilities. They are under the highest obligations to scrutinize the policies of their respective institutions, and to seek to adapt them to the new conditions and to the results that time and experience may confirm. The freedom of action accorded to them by the Founder and his generous financial provision for their future appeal no less to their sense of honor than to their sense of responsibility.

The decade of administration just completed by the Carnegie Foundation has been rich in experience. It has been a period of unexampled activity in the creation of pension systems on the part of institutions of learning, of the great industries, and of the states themselves. To-day more than ever before there is needed a clear exposition of the fundamental social and economic principles upon which pension systems ought to rest. I apprehend, therefore, that at this time the trustees of the Foundation can do no greater service than to re-examine their own system of pensions and to meet frankly any weaknesses which may exist.

I have sought, therefore, in the following report to deal with the question of pensions in such way as to make clear the fundamental principles involved, and then to apply these to the consideration of pensions for college teachers. Logically the discussion falls under the following heads, altho for the convenience of presentation a formal division of the sections has not been made:

- I. The Philosophy of the Pension System.
- II. The Cost of the Pension System.
- III. The Responsibility for the Pension System.
- IV. A Coöperative System of Insurance and Pensions.
- V. The Existing System of the Carnegie Foundation.

The report represents long study and the counsel of those best qualified to advise. For the sake of brevity and clearness only such statistical tables are introduced as seem indispensable, and references to the literature are for similar reasons infrequent.

PENSIONS AND ANNUITIES

In the literature of insurance, annuities, and pensions no clear distinction is made between a pension and an annuity. Pension is used to describe an annual payment made to an individual, whether secured thru his coöperation or as a free gift. The word annuity in insurance publications refers generally to an annual payment made to an individual from moneys contributed by himself. Ordinarily these annuities are of two kinds. For example, an individual at the age of thirty may go to an insurance company with, say, \$10,000, and purchase outright an annuity to begin at once and continue until his death; or he may, beginning at the age of thirty, pay a sum each year until some later age such as sixty-five, after which time the company guarantees him a fixed annuity throughout his remaining years. The latter form is spoken of as a deferred annuity.

The word pension in the exact sense applies to a payment made to an individual without his coöperation. In the first edition of his famous Dictionary of the English Language Dr. Johnson defined a pension as "an allowance made to anyone without an equivalent. In England it is generally understood to mean pay given to a state hireling for treason to his country." "Pensioner" he defines as "one who is supported by an allowance paid at the will of another; a dependant." These definitions were the source of no small embarrassment to the good doctor himself a few years later when, upon the solicitation of friends, George III conferred upon him an annual pension of three hundred pounds. After some hesitation Dr. Johnson accepted the pension and lived contentedly upon it to the end of his life, altho his critics never ceased to insist that his political views had been warped by its acceptance. These definitions reflect, no doubt, somewhat of the prejudice of the great scholar, but they reflect also a general attitude of mind long since obsolete on the continent of Europe, but still common in America and in England, which looks askance upon the acceptance of a pension, both on account of the implied dependence and also on account of the possible effect such acceptance may have upon the opinions of the beneficiary. It was partly in view of this feeling that the pensions of the Carnegie Foundation have been denominated retiring allowances. They are, of course, pensions in the true sense.

The term annuity may with propriety be applied to any sum annually paid to an individual, whether from the proceeds of his own payments or from some other source, but in insurance contracts annuities usually refer to annual incomes secured by the payments of the beneficiaries themselves in one of the two ways already referred to.

When, however, one comes to consider the various plans under which pensions and annuities are paid, sometimes in combination with each other, one finds such payments referred to almost universally as pensions. Thus the old age pensions instituted in recent years by the English government are paid entirely by the government and are pensions pure and simple. The annuities paid to industrial workers in

6 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

Germany, affecting nearly one-third of the entire population, are made up of deferred annuities paid for by the worker himself thru annual contributions extending over a long term of years, of similar payments from his employer extending over an equal period of time, and of a third contribution from the government. Such a system is made up in part of a pension and in part of an annuity. So universal, however, has been the use of the term pension that both plans are referred to as pension systems.

For the sake of clearness it would be helpful to use the words pension and annuity as distinctive terms, but the effort involves such a divergence from ordinary usage that it seems wiser for the moment to use the term pension in defining a system of annuities, even tho the pension so referred to is made up in part of an annuity paid for by the individual. Toward the end of this paper I have described a combination of insurance and annuity which differs from the pension systems now in use, but for the present the term pension system will be used to describe both those pensions which are paid with the coöperation of the beneficiary and those which are paid without it. The details of each system will make clear whether it is a true pension system or not.

THE ORIGIN OF PENSION SYSTEMS

The personal pension is an ancient institution. The pension system is distinctly modern.

The history of the pension as a reward for public service goes back to the Roman Empire. At that period and for many centuries thereafter the pension existed as the gift of a sovereign to a subject for distinguished military service. As time went on the sovereign used his prerogative to reward distinguished achievement in other fields of endeavor, in literature, in art, in philanthropy, but the pension always remained the free gift of a sovereign or of a government to an individual.

In contrast with the personal pension, systems of pensions for the old and the disabled or for special groups of the body politic are recent. They have arisen primarily out of the social readjustment consequent upon industrial revolution, in part out of a gradually developing social conscience. Until the beginning of the nineteenth century the industrial worker lived in a paternal relation to his employer. The latter acknowledged an obligation to provide for his employee in sickness and in old age. The revolution in industry which came at the beginning of that century changed this situation. The worker was thrown upon his own resources. He no longer lived in close touch with his employer, but in large groups gathered about industrial centres. Communities were transformed from agricultural to manufacturing modes of life. This transformation left the mass of industrial workers to face in old age acute poverty and want unless some organized effort was made to meet it.¹ The pension system arose from this situation. Practically all European countries have

¹ *Massachusetts Report on Old Age Pensions, Annuities, and Insurance*, Boston, 1914.

inaugurated such systems as a defence for working-men against want in old age and against invalidity. In this field Germany has led the way. Her pension legislation and the administration of the industrial pension system of that country, which affects many millions of people, constitute to-day the most complete and successful effort to deal with those risks of industrial workers which arise out of old age and loss of income-earning power. The expense of the industrial pension system falls jointly upon the employer, the employee, and the government, but the administration lies wholly in the hands of the government. Insurance is obligatory upon laborers, journeymen, assistants, domestic servants, and industrial workers generally. Participation begins with the seventeenth year, and starting at this early age, a very small payment on the part of both employer and employee results during the normal life of the individual in a satisfactory protection, and imposes at the same time no unreasonable burden upon either the worker or the industry.

While this movement for pensions and insurance for industrial workers has arisen mainly out of the changed social and industrial conditions of the last hundred years, it is also true that governments have been influenced to participate in the movement by the desire to diminish pauperism and the financial burden that pauperism brings.¹ Whether this result has been achieved remains as yet undecided. Professor Henry W. Farnam, who has made a close examination of the question, expresses doubt as to whether the institution of industrial pensions has made itself felt by a diminution in the relief of the poor, but he mentions at the same time many contributing facts which may affect the result.²

Pension systems for governmental employees were almost coincident with the rise of industrial pensions. They began with systems of pensions for military officers about the beginning of the last century. The earliest civil pension system in existence is that for the municipal employees of Paris. The English civil service pension dates from 1810.

The pension of military officers as a class was defended upon the ground of the risk which these servants of the government were forced to take, but it was an easy step to the pensioning of civil servants. Teachers' pensions in European countries thus came in among those of other civil servants, teachers being, whether in schools or universities, civil employees of the various governments.

In the German states and municipalities pensions for civil servants, including teachers, differ from the pensions maintained for industrial workers in this fundamental fact, they are pure pensions being paid entirely by the government.

The reasons which brought about the adoption of the free pension system were partly political and partly due to a lack of knowledge of the ultimate load.

A pension system paid for by a government was politically popular. Every civil servant could be trusted to be enthusiastic for a pension which apparently cost him nothing. Social considerations made it desirable to maintain certain classes, such as

¹ The recent English legislation is almost entirely of this character.

² *Yale Review*, 1905.

8 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

teachers, in old age in a fitting manner. Perhaps most influential of all was the fact that the free pension system cost but a small sum at the beginning and the ultimate load involved was not appreciated.

It was argued that the payment of a modest pension, which would be claimed in the end by only the minority that survived long service, would take the place of a very considerable increase in the rate of pay, and that in the long run it would be cheaper for the employer, in this case the government, than a contributory system with higher pay.

The argument is sound as far as it goes. If salaries had been depressed 25 or 30 per cent, and if the government had anticipated the pension payments by setting aside from year to year the necessary reserves, the ultimate load might have been kept within a reasonable limit. The actual result has been disappointment both on the part of the beneficiaries of the free system and of those who paid for the pensions. Salaries are undoubtedly lowered in the course of time by a free pension system, but not to such an extent as to prevent the pension load from becoming an enormous burden. Thus, in Berlin in 1914 the pay-roll of the civil service, excluding the police, cost \$3,094,000, while the cost of the pension roll amounted to \$1,142,400 or 36.92 per cent of the pay of the active list. In England the cost of the pension system had increased to approximately 30 per cent in the Treasury and subordinate departments in 1903. The steady growth of the pension load coming in a municipality or a state is illustrated by the history of the pensions of the London Metropolitan Police as shown in the following table:

Year	Pay-Roll	Pension Roll	Percentage ratio of Pension Roll to Pay-Roll
1844	\$1,319,499	\$10,837	0.8
1854	1,638,199	139,841	8.5
1890	5,842,988	984,592	16.8
1915	10,060,914	2,946,919	29.3

In France in 1912 the Pension Roll of the National Civil Service cost 17 per cent of the pay of those on the active list, and in Austria in the same year the pension cost for the civil list was 33 per cent of the cost of the pay of the active list.

The essential facts to which the pension experiences of different nations seem to point are these. Any employer, whether a government or a corporation, that undertakes to carry the liabilities which accrue under a system of non-contributory pensions will in the end find the load intolerable. Employees, on the other hand, will be disappointed both by the diminution in the rates of pay and the uncertainty as to the payment of the pension which is likely to arise in the course of time. The truth of these lessons of experience is not always easy to prove to either governments, corporations, or employees. Our American states and municipalities are repeating the process thru which European states have gone. Legislation establishing pension systems both by states and municipalities is being enacted with the enthusiastic support

of teachers, but without a full understanding on the part of the teacher as to where his true interest lies and without any conception on the part of states and municipalities of the load which is assumed.

The free pension system lays upon the budget of the city or state a load it is unable to bear, it tends to depress the rate of pay of employees, and proves in the end a disappointment both to the beneficiaries of the system and to those who maintain it.

There is no justification for making so fundamental a discrimination between industrial pension systems and those for Civil Service employees or professional men on fixed pay as is involved in making the one contributory and the other free. The fundamental principles underlying all pension systems are the same.

It should be added that in the European countries outside of Germany the contributory pension system has been adopted, but with many variations; and in a number of cases the contributions of individuals and of the government have been assumed without complete actuarial study. In the Civil Service of France employees contribute about one third of the pension cost, in Austria, about one tenth. In both countries the pension load has become a serious burden.

THE SOCIAL PHILOSOPHY OF THE PENSION SYSTEM

The literature dealing with these pension systems is extensive, but it is devoted almost exclusively either to a description of the systems themselves or to a consideration of the actuarial and financial problems that are involved. In all cases it is assumed that pensions are desirable and are in the interest of the class or social group for which they have been planned, provided the pension system adopted is financially sound.

For this reason those who seek to deal with the problems of pensions in a democracy like the United States gain scant help from this large mass of literature, for back of these actuarial and financial questions lie others still more fundamental which concern themselves with the inherent wisdom and fairness of the pension system itself. Such an enquirer desires to be assured that a pension system will do good rather than harm, and to ascertain whether the pensioning of a particular class or group tends to demoralize or to stimulate. Upon such questions this mass of pension literature throws little light. Before one undertakes actuarial and financial computations, however, before he makes the assumptions upon which his pensions are to be predicated and frames the rules on which they are to be conferred, these questions must be met in one form or another.

The answer which has been given to them in Europe is the outcome of the social philosophy of the last hundred years, a social philosophy under which the governments of these countries exercise a paternal supervision quite beyond that to which Americans are accustomed, but toward which they have been rapidly tending in the last twenty years.

10 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

This social philosophy has already been briefly referred to. Those who inaugurated pension systems reasoned in some such way as this: The old-time relation between employer and employed is gone. The modern industrial worker is a member of a great group of working-men employed by a manufacturing company or agency. When such a workman falls ill, or when he becomes too old for service, he has no personal relation with the employer which enables him to claim protection or relief. It is clearly against the interest of the social order that these workers who have developed and maintained the industries of the country should find themselves helpless in illness and in old age. Therefore, a régime must be devised under which such relief may be within their grasp. The proposers of this solution argued that the responsibility for such an arrangement lay first of all with the workman himself, secondly with the employer, and in the third place with the general public as represented by the government. The workman was directly interested; the employer was quite as directly interested on the ground of economic efficiency; the general public was not only interested from the standpoint of the relief of the poor, but indirectly interested in the happiness and well-being of the body of industrial workers. Out of some such philosophy as this was conceived the industrial pension system of countries like Germany. It was the logical outcome of that philosophy of social justice which looks to the state as the agency which has not only to plan but to administer social relief. In European countries those charged with the administration of the state not only had the duty of devising, but they also had the power to organize the system of relief and to make it compulsory upon worker and employer. It should be added that as a matter of practical administration, such a system of relief is rendered easy by the fact that the workers of the various industries are generally gathered in large groups which form convenient units of the pension system. It is thus easy to group all employers and employees in a given industry into a feasible pension system, and one which still enables the worker in any industry to pass freely from one employer to another.

The non-contributory pensions of the German states and municipalities can scarcely be invoked as justification for similar pensions for college teachers in a country like the United States. College teachers belong to a learned profession, not to a trade, and while the pay which they receive is upon a modest scale, it nevertheless places the teacher quite beyond that danger line of want which hangs continually over the industrial worker. The typical salary of the college teacher in the institutions associated with the Foundation¹ is at the age of thirty-four \$1800, at thirty-eight \$2200, at forty \$2500, at forty-five \$2850, at forty-nine \$3200, and reaches a maximum of approximately \$3300 at fifty-three. This scale, while moderate, compares nevertheless favorably with the typical income of the physician, of the engineer, and of the lawyer. True, there are no great financial prizes in teaching as there are in medicine, in engineering, and in law, but on the average the college teacher is paid as highly as are the members of other professions. No argument based on the narrow margin

¹ *Eighth Annual Report of the Carnegie Foundation*, page 106.

between comfort and poverty, such as is advanced in the case of the industrial worker, can be put forward in the case of the college teacher to justify a free pension for him.

It is clear also that the question of the justice and the desirability of the pension for the college professor is somewhat different from that which arises in the case of the public school teacher. These latter receive salaries which in many cases approximate day wages. Thus the Foundation's recent study of education in Vermont found the representative rural school teacher receiving "wages" of between \$8 and \$9 a week, and this only during the school term. The margin between comfort and want in such a case is so small that a claim for a pension on the ground of insufficient pay has more justification. Furthermore these teachers are civil employees of their respective states, and they may be considered by the state from this point of view.

Before a social philosophy can justify college pensions it is necessary to answer questions like these: Will a system of pensions in American colleges and universities serve the financial, intellectual, and social interests of the teachers themselves? Will it serve education in the larger sense? If such pensions are justified, upon whom does the obligation for their payment rest? What form of pension can be devised which is at once feasible and just? These questions are fundamental. They precede any actuarial or financial computations.

For the trustees of the Carnegie Foundation, after answering these questions there still remains another of large import and involving a weighty responsibility. Considering not alone the present, but the future, and having in view the interests not only of the five thousand teachers in the institutions now associated with the Foundation, but the interests of the whole body of college teachers, how can the Carnegie Foundation most wisely use its endowment in the development of a pension and relief system which may serve the great body of college teachers; a system which may increase their independence, not diminish it; which shall make for individual sense of responsibility, not against it; which shall promote migration from one college to another, not restrict it; which shall give genuine security to the college teacher, but without the sense of obligation; and finally, which shall give the college teacher himself participation in the management of the pension system? The answers to these questions are clearer to-day than they were ten years ago.

IS A PENSION SYSTEM FOR COLLEGE TEACHERS JUSTIFIED?

In the preceding section I have pointed out that the industrial pensions of European nations are based upon a definite social philosophy. These pension systems—and I use the word pension to include all those forms of protection afforded by insurance and annuities—are contributory and compulsory. I have called attention in the second place to the fact that European governments have provided for their civil servants, including teachers, free pensions, and that they have taken this action from the standpoint of employers, and mainly upon economic grounds. The pension system furnishes

12 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

a satisfactory means of removing old and faithful servants, and hence makes for the good of the service. It is an economical measure because the expense is in the long run paid by the employed.

In America, so far as we have dealt with pension systems for teachers, we have generally transferred the German plan of free pensions without, however, seeking to enquire closely whether it rests upon a social philosophy which fits our democracy. Are such pensions justifiable for American college teachers?

To an agency which for ten years has been engaged in paying pensions to college teachers this may seem a late day to raise this question. Those who have acquainted themselves with the charter of the Foundation, and who are familiar with its history, know that it has been the practice, as it has been the duty, of the trustees to raise such questions constantly until what is believed to be a final and satisfactory solution has been reached. At the inauguration of the Foundation but little knowledge was available concerning pension systems. None are better aware of this ignorance than the executive officers who were more directly responsible. The trustees had received an endowment with which to pay pensions to teachers, and they forthwith proceeded to pay them in such manner as seemed to them wise on the basis of the information and experience then available. The Founder himself, realizing the difficulties that were involved and the possible necessity for change in the future, left within the discretion of the trustees the power to change even the object of the Foundation, if in their judgment experience proved such a change to be desirable. By a two-thirds vote the trustees could, after discharging the obligations already assumed, discontinue pensions altogether in the future, if in their judgment the payment of such pensions was productive of harm rather than of good.

The experience of ten years, however, has developed nothing to change the opinions of the Founder and the trustees that some form of pension relief for college teachers is not only justified on the ground of educational progress, but that some such plan is demanded from the standpoint of a just and humane social philosophy. The reasons for this opinion would be stated to-day somewhat differently than ten years ago.

It will clear the ground somewhat for these reasons if two misconceptions which have confused the discussion of this matter are first removed.

In the United States free pensions for college teachers have been widely urged upon the basis of the altruistic character of the teacher's profession and upon the plea of poverty. Neither of these furnishes a sound reason. It is true that the altruistic motive is strong among teachers. It is equally strong—perhaps stronger—among physicians. But this fact constitutes no claim for subsidizing either of these professions. The world does not owe a subsidy to any man or to any profession on the ground of altruistic intentions.

Moreover, the claim constantly put forward that altruism is a determining motive in bringing men into the calling of the teacher is misleading. Men become teachers

from the same motives that lead others to become physicians, engineers, and lawyers. The opportunity of the moment determines many. Others are influenced by personal liking for study and books. With a large number financial considerations have weight in drawing them into college places. This may seem a paradox, but it is thoroughly understood by all who are in close touch with the teaching profession. A large proportion of the students in colleges come from families whose means are restricted, and who live simply and economically. These are exactly the students most likely to work seriously. Many of them have good minds, and they come to the end of their college course interested in study and in college life and affairs. From them come the great number of graduate students. When they face the problem of earning a livelihood, they are confronted by the fact that the \$1200 or \$1500 a year to be had as an instructor is far more pay than they can begin with in any other field. Furthermore, it gives better promise of continuity.

A large proportion of these men are already engaged to their future wives and look forward to an early marriage. The man who has a sweetheart waiting to become a wife is almost sure to prefer the security of the present to the larger promise of the future. Teachers are altruistic in the choice of their profession only in the same sense that high-minded physicians, lawyers, and business men are altruistic.

In the second place free pensions for college teachers cannot be invoked on the plea of poverty. True, college salaries are modest, but so, on the average, are the incomes of physicians, lawyers, and engineers. The salary received by the teacher removes him from that danger of extreme want which lies athwart the path of the day laborer. If the teacher has health and ability, the protection of his wife, of his children, and of himself against the hazards of life is mainly a function of his own self-control, foresight, and thrift. There are no great money prizes in his calling and some of the ablest men are greatly underpaid; but many also are overpaid, and the majority earn incomes as large as they could command in any other field. There is no reason for pensioning teachers either on the ground of altruistic service or of inadequate pay which would not hold for physicians, engineers, lawyers, and preachers. The reasons which justify some organized pension system to meet the hazards of the lives of teachers are partly economic and partly the outcome of a gradually developing social conscience.

A sound economic reason that justifies pensions for college teachers lies in the fact that the provision of a pension offers the only humane and feasible method by which worn-out and aged teachers may be removed from the service. Experience has shown that neither governments nor colleges will dismiss faithful servants who become incapacitated in cases where they possess no resources to fall back upon. In such cases there is a direct conflict between the social conscience and sound administration. The tendency is to sacrifice the students to save the teacher. Perhaps in no other field does the worn-out or inefficient worker do more harm than in the school or in the college. A pension system makes for greater efficiency, whether the organization

14 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

be industrial or educational, and thus furnishes a sound economic reason for its institution.

An additional economic reason is that college teachers, unlike physicians, lawyers, and engineers, are employees on fixed salaries. They are gathered in groups whose work and scale of pay are comparable. The organization of teachers into some form of association for their common protection is, therefore, feasible, as it is not feasible for doctors, lawyers, and engineers. This economic reason has far greater significance than is ordinarily understood. It is impossible to organize a pension system among any social group unless its members are living and working under conditions that approach some degree of uniformity. Experience has shown again and again that individualistic pension systems—that is, systems for relief addressed to the individual alone—result in bringing relief only to those who need it least. But as college teachers are in the economic sense employees and they are collected into groups under conditions of work and pay which are comparable, it is, therefore, practically feasible for them to unite for common protection.

A further reason for the institution of some organized method of insurance and pensions for college teachers lies in the separation of the teachers from commercial avenues of investment. The demands upon every college teacher are heavy. Even tho he possess in high degree self-control and thrift, his accumulations must necessarily take the form of modest monthly savings. No agency exists whereby such a teacher can purchase the protection he needs at reasonable cost, nor is there any agency which will accept his monthly savings and guarantee him any larger interest than the savings bank. Unless he devotes to investment studies an amount of time likely to transform him from a student into a speculator, no way is open to him for increasing his savings by investment. And yet from the standpoint of insurance teachers are preferred risks. Associated together they could carry insurance at rates far below what they are called on to pay. All this constitutes an additional economic reason for some form of association of teachers for protection and financial security.

The maintenance of a pension system for college teachers probably has some effect in bringing able men into the calling and in keeping them in it. How much weight should be placed upon this argument it is impossible to say. In Germany the pension has become so much a part of the teacher's life that he can scarcely conceive of accepting a place which does not provide a pension. Teachers who are asked to come from Europe to America are generally more concerned about the pension than about the scale of salary. How much influence, however, such an inducement has upon the young man of thirty just about to enter the profession and for whom the pension lies thirty or thirty-five years ahead, no one can say. Its effect, if appreciable, will be evident only after a generation. There can, of course, be little doubt that a pension system brings to the teacher a contentment and sense of security which make for good work and for fruitful scholarship.

Turning to those reasons that rest upon social and humanitarian grounds, it is

fair to say that the pay of the teacher, while far above that of the laborer, leaves, nevertheless, but small margin for the accumulation of money against the larger risks of life. The preparation of the teacher is costly, and many men find themselves in debt when they begin their teaching career. The demands upon the teacher's income are great, not only for the care of his family and for some measure of culture and enjoyment, but also to enable him to keep abreast of his profession, and if he saves money at all, it can be done only by the exercise of great economy and self-denial. It would seem clearly, therefore, in the interest of the social order that in a profession so circumstanced some form of organization should be developed under which the teacher could within his means and ability and without too great a burden secure reasonable protection for his family and reasonable security for himself. Such a provision makes for happiness, for contentment, and for the general progress of civilization.

While the teacher in the college is seldom called upon to face in old age the depth of poverty so common among industrial workers who do not participate in a pension system, it remains true that the loss of independence to one who has been throughout life not only independent but a helper of others is a source of pain and of humiliation quite as great as that of abject poverty. There are few situations more painful than that of the old and faithful teacher who has served his generation well, and who finds himself dependent in old age. The gradually developing conscience of humanity views with increasing repugnance the spectacle of deserving old age in distress. Where the members of a profession are paid employees, capable of being organized into a feasible pension system, the conscience of the world to-day holds that some form of organization should be instituted for their relief and protection. It is this argument, not easy to express, but powerful in its operation upon the hearts and minds of men, that forms the strongest social reason for the institution of some form of pensions among college teachers.

While these reasons not only justify, but in my judgment require, the establishment and maintenance of pension systems for college teachers, it is still true that the experience of all pension systems, whether among industrial workers, among governmental civil servants, or among college teachers, show unexpected difficulties and disappointments. Pension systems, whether established for one or another social group, are complicated with every other personal, institutional, and social interest. The possession of a pension or the right to possess one touches the financial interest of every teacher, and tends to arouse that selfish conservatism which exists in greater or less measure in every human breast. No group of men, however high-minded, can be disinterested in considering the questions of their own pensions any more than they can be disinterested in considering any other financial interest or personal comfort.

It cannot be denied also that the possession of a pension or the prospect of its possession sometimes stops the development of men, just as the possession of a mod-

16 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

erate fortune deadens their energy. There is a type of man in all professions who, once at ease with respect to the future, tends to sink into inactivity.

While it is true that organizations will not ordinarily rid themselves of old and incompetent men except by way of the pension, it is equally true that under a pension system a corresponding pressure is put upon those in authority to retain every employee, whether competent or incompetent, until such time as he shall have entered upon his pension.

In other words, the possibilities for harm are present in a pension system whether for laborers or for teachers, as they are present in every other social and economic movement for human betterment. The more one examines the arguments for a pension system, the more clearly he realizes that its value to any group and to civilization will depend upon the conditions under which the pensions are established and the methods employed in their administration. The fundamental assumptions that fix the terms under which pensions are secured go far to determine whether the pension so paid will in the long run work for the best interests of those who participate and for the common good.

Admitting, therefore, that some form of pension system is justifiable and necessary for college teachers, the value and effect of the system established will in the final analysis rest upon the determination of a few fundamental questions.

1. What are the specific risks in the teacher's career that should be met by a relief system?
2. Upon whom does the responsibility rest for providing protection from these risks?
3. What is the right form of administration for such a system, and who shall participate in it?
4. Once these fundamental questions are answered, what are the most trustworthy actuarial and statistical estimates for determining the liabilities of the future?

These are the questions to which we now turn.

THE LIFE HAZARDS OF THE COLLEGE TEACHER

It has been pointed out that college teachers, by reason of their economic situation as employees of corporations, form a class in the body politic capable of organization into pension systems. Before we undertake to fix the responsibility for the inauguration and support of such a system, it is well to have definite conceptions of the hazards against which the teacher needs to be protected. To comprehend these, one must have in view the economic and professional situation of the typical teacher.

The man or woman who becomes at this day a teacher in the college or university has passed thru college, taken post-graduate work, and begins his academic career as an assistant. This term is used in colleges or universities to describe a man or woman somewhere between the ages of twenty-five and thirty who is part student and part

teacher, working for a nominal salary usually from \$300 to \$500 a year. At the age of thirty the representative teacher in one of the better colleges will be an instructor with a salary of about \$1400 a year, at thirty-five he will be junior professor with a salary of about \$2000, and between the ages of forty and forty-five he will have become a full professor with a salary of \$3000. This scale of salaries is representative of the better American colleges, of perhaps two hundred out of the existing nine hundred. In the great number of American colleges of small endowment the scale of salaries is lower. It may be said, however, that in many small communities a salary of \$1200 goes farther than a salary of \$1800 in a city, so that the relative value of college salaries cannot always be estimated on a merely statistical basis.

The typical college teacher marries as soon as he has secured a firm seat as instructor or junior professor, generally by the time he has reached the age of thirty. Altho college families, particularly in the eastern part of the United States, show the diminishing birth rate characteristic of all American families, it remains true that the typical teacher will have a wife and from two to three children to support. Under such circumstances it is clear that if his family is to grow in culture and refinement, this can be accomplished only by good management on the part of husband and wife accompanied by foresight and self-denial.

The instructor who has married and undertaken the responsibilities of a family upon the modest salary which is to be his as a teacher cannot possibly safeguard himself or his dependents against all of the risks of life. A healthy optimism is a part of the necessary endowment of the normal human life. Looking forward, therefore, to fair health and ordinary security of place, the teacher can expect to defend himself and those dependent upon him only against those most serious hazards which the lack of an independent income necessarily brings. What are these hazards?

The first and greatest hazard to which the teacher subjects his family is that of his premature death. Of a thousand men who are instructors at the age of thirty, nearly one-half will not reach the pensionable age. Against this hazard the teacher is in honor bound to make such provision as his circumstances permit. The protection thus provided is not for himself, but for wife and children.

The second hazard which he must seek to anticipate concerns himself primarily, altho it touches closely the happiness and security of his wife, and to a less degree that of his children. This is the risk of the termination of his earning capacity by increasing age or disability.

The most important economic problem which the man living upon modest salary has to face, and one whose solution is at once delicate and difficult, is to give due weight to these two risks, and to determine what proportion of his income should be devoted to the daily needs and pleasures of his family, what proportion should go to the protection of that family in the case of his untimely death, and what proportion should go to his own protection and theirs when his income-earning capacity ceases.

These briefly stated are the capital hazards which every teacher with a family must

18 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

face. To set this situation clearly before the college teacher, and then to put within his reach the means of dealing with it is a service of the highest social and educational importance.

As protection to wife and children against the first of these hazards,—the premature death of the bread-winner,—only one agency has been provided in our civilization, insurance in some form. Insurance is essentially a method of reducing individual risk by coöperation. It is not the only way of meeting such risk, but the man who is supporting a family upon a modest salary has rarely any other open to him.

Security to the teacher himself in old age can be afforded only by an annuity, whether it be provided in one way or another. This annuity should be planned in such form as to protect the wife in case she survives her husband.

The risk of disability is a remote one, but when it falls upon a teacher who is the head of a family, it creates one of the most painful situations that can arise. It will later be dealt with separately.

In general, then, there are two capital risks against which the teacher must seek protection in justice to his family and to himself. These hazards are the risk of premature death and the risk of loss of income-earning ability. The first can be met only by some form of insurance; the second only by some form of pension. With these capital risks of the teacher's life definitely stated, we now turn to the question, Who is responsible for providing for college teachers and their dependents a means of protection against these life risks?

WHO IS RESPONSIBLE FOR THE COLLEGE TEACHER'S PROTECTION?

American colleges present a wider diversity of organization and of government than those of any other country. There are in the United States between nine hundred and one thousand institutions chartered to confer higher degrees. In Canada there are about twenty degree-conferring institutions. These include universities and technical schools of the strongest type. They include vigorous and well-equipped colleges. But the great majority of the institutions in the United States are small, poorly equipped, and with meagre support. In most of them the struggle for existence has been so keen in the past that the question of coöperation for the well-being of teachers has remained practically untouched either by the teacher or by the college government.

American universities and colleges may be divided roughly into three groups: universities and colleges supported and controlled by the state, universities and colleges under the control of religious bodies, and in the third group, institutions which have no formal connection either with the state or with a religious body, but which exist as independent educational agencies, governed by their own boards of trustees, responsible only to the governments of the states in which they exist, and depending for support upon endowments and tuitions.

The situation of the teacher and his work in these groups of colleges does not vary greatly. The service which he gives is not materially different, whether carried out in a state institution, in a denominational college, or in an endowed college not connected with a religious body. Strong institutions, mediocre institutions, weak institutions, exist in all three groups, but the essential work of the teacher is practically the same in institutions of corresponding grade. It is impossible to consider education in America without taking into account the great mass of institutions which are engaged in educational work. While it is clearly admitted by those who are familiar with our present situation that many colleges and universities now exist which have been brought into being by an unwise competition or by exaggerated local ambition, it remains true that the development of our institutions of higher learning will be determined by the gradual growth of those colleges which prove themselves able to exist whether under one form of control or another, and by the natural elimination of those which cannot survive these conditions. But the profession of the teacher in these groups of institutions cannot be differentiated, and it is entirely in the interest of education that the well-being of the teacher should be considered independently of the form of institution in which he serves. It is also for the interest of education that there should be natural and free migration of teachers from one institution to another, and from the institutions of one group to the institutions of another group.

When one views, therefore, the American teacher as a member of a profession, and undertakes to determine the responsibility for establishing and maintaining some form of protection against the capital risks of his life, he must be considered from two points of view, first as an individual, secondly in the economic sense as an employee of a corporation.

As an individual the man of thirty has chosen for his life-work the profession of a teacher. He has married and has assumed the responsibilities of a family. The obligation to provide against the two great risks of his life rests primarily upon his own shoulders. Indeed, there are no other responsibilities which ought to take precedence of these two. The reasons why they have not done so are two, and this is clearly brought out in the letters of teachers, a summary of which will be presented later. In the first place the individual teacher seldom thinks out completely the nature of the risks to which he and his family are exposed. As a rule he understands little about insurance, still less about annuities, and he and his wife simply take the risk themselves, and if misfortune comes, help is obtained in one way or another. The second reason, however, is the more important one. No means have ever yet been provided by which the teacher could secure adequate protection for his family and for himself at a cost within his reach. To accomplish this is the object at which this study is aimed.

When one considers the necessities of the teacher and of his family in the matter of protection against these major risks of life, he must also take into account his economic situation as an employee of a corporation. In this relation the teacher re-

20 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

ceives a remuneration comparable to that received by other technical employees, such as chemists and engineers. He receives in addition a far greater assurance of continuity of employment, and this assurance is rapidly becoming not only stronger but more general. The time is not far distant when in all of the better colleges throughout the country the teacher may count upon the security of his position, and this notwithstanding the recent recrudescence of political interference in a number of state universities. No system of protection against political interference or personal incompetence can be devised.

The university or the college in its economic relations with its teachers is a chartered corporation or a direct agency of the state. In either case it assumes towards its employees exactly the same obligations that all other employers assume, and under the quickening conscience of our time the employer is held accountable not simply for just payment of wages and for fair security of place; his responsibility does not end there. The employer is obligated to provide, for the sake of his own administration, a humane means by which disabled and aged employees may be removed from the service. Experience has shown that in the majority of cases no corporation will remove faithful employees who are partly incapacitated, if they are without means of livelihood. On the ground of efficiency alone a corporation must provide some means for the removal not only of the incompetent, but also of those who by reason of disability or old age are no longer able to discharge their duties. On economic grounds the government of the college must sooner or later assume responsibility for a system of annuities.

There is a second reason not so easy to express, but none the less powerful, that imposes upon every corporation employing men the obligation to bear at least a part of some such system of relief. That obligation arises out of the modern social philosophy which holds that the employer is in part responsible for the happiness and security of his employees.

Philanthropic corporations, such as colleges and universities, have been slow to recognize this obligation. Industrial companies have established pension systems for their employees more freely than institutions like colleges. Trustees of institutions of learning have argued that a manufacturing establishment earning a dividend was in a position to do what educational corporations could not do. There has been a widespread feeling among trustees of colleges that they had no right to spend their income, whether from endowment or from tuitions, in the payment of pensions for their teachers. Not infrequently a generous trustee, rather than pay a pension out of the college income, has put his hand in his own pocket to care for an old teacher no longer able to work, and yet this same trustee will spend the college income in advertising to secure more students when each addition adds to the college expense; he will vote to spend the income for a dormitory to house these additional students, and he will rarely hesitate to spend it for an athletic field on which they may play. College trustees as a body, in other words, have not yet faced their obligation with respect to

the treatment of the college employees. In this matter the American college has not developed a corporate conscience.

There can be no question that if an obligation rests upon the managers or directors of any form of human organization to face their responsibility to their employees, that obligation is strongest upon the trustees of colleges and universities. The college corporation stands for something higher than the business corporation. It undertakes to represent an administration devoted to the best ideals of life, the highest purposes of civilization. The college management reflects these ideals best when it sets them forth in its own administration. The college that turns out an aged professor to starve because its trustees are unwilling to use any part of its income for his relief stultifies itself as an exponent of humane civilization. To plead with the public for more money to build dormitories, lecture rooms, athletic fields, and at the same time to refuse to face the humanitarian obligations which the civilization of our day demands of all corporations, involves a complete misconception of the duty and responsibilities of the college organization. This does not mean that the college must put the protection of its teachers first; it means only that it should consider the care of its employees as one of the obligations to be met in full consideration of the other obligations it has to face. In the long run that college will be the best exponent of civilization which wisely and conscientiously faces its own responsibilities as an organization. The college corporation unable or unwilling to face this responsibility will in time find itself out of touch with the social standards of our civilization.

The realization of this obligation had already come to the stronger American institutions of learning before Mr. Carnegie made his notable gift. Columbia, Harvard, and Cornell, for example, had made provision in one form or another for meeting this obligation. In this matter Yale, under the leadership of President Dwight, led the way in the completeness and generosity of its action. Pensions were provided for its teachers upon a generous basis. This action was taken with full knowledge of the load which was being assumed. Shortly afterward Harvard established a pension system on the plan adopted at Yale. The endowment available for the purpose at the time was small. The corporation of Harvard University realized that it was insufficient. It counted, however, not only upon the increase of this endowment, but it stood ready to pay these pensions out of the current income of the university as an obligation comparable in its nature with the other obligations of the university. These separate systems of pensions are now used by the Yale and Harvard corporations only to supplement such pensions as the Carnegie Foundation may provide.

When, therefore, one considers where the obligation rests to provide a protection for the teacher against the primary hazards of his life, it is clear that the responsibility rests squarely upon the teacher and his college, upon the worker and his employer. Upon these two the obligation is direct and definite. Upon the teacher and his college must ultimately rest the working out and maintenance of a general system of pensions for college teachers.

22 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

There is one other agency responsible in this matter in the United States, Canada, and Newfoundland. The Carnegie Foundation has received a large endowment to be devoted to the promotion of teaching, and in particular to the payment of pensions to college teachers. It is the clear duty of this agency so to use its resources as to aid teachers and colleges to inaugurate and maintain a system of pensions and annuities adapted to the needs of the great body of teachers.

The question, then, assumes this practical form: Can a plan be devised under which a system of insurance and annuities can be maintained by teachers and by their colleges which shall be within the limitations of the teacher's salary and within the reach of the college income in view of its other responsibilities? What part in such a plan falls to the teacher, the college, and to the Carnegie Foundation? To these questions we now turn.

THE FUNCTION OF LIFE INSURANCE AND ITS POSSIBILITIES

To obtain a clear conception of what is proposed later, it is necessary to bear in mind the elementary concepts which underlie life insurance. Insurance is essentially nothing more than a method by which the risk of the individual is reduced by coöperation. It is resorted to only where uncertainty of loss produces risk. Unless there exists a possibility of loss, and at the same time uncertainty as to the occurrence of the loss or its extent, no risk is present, and unless risk is present there is no field for insurance. The employment of insurance as a means to deal with an uncertain risk is its real function, and that for which it was instituted. Insurance as a means of investment has, however, become so common as in large measure to confuse in the public mind its true function. It is in the use of insurance in its legitimate field that the teacher finds his opportunity.

The theory of probability upon which the risk is determined is familiar to all. Mortality tables have been constructed that represent the life experience of many thousands of individuals. From such observations it is known that at the age of thirty, for example, about eight men out of one thousand will die during the ensuing year. The probability, therefore, of death to an individual at that age is eight one-thousandths. The premium necessary to care for this risk will be equal to the value of the prospective insurance (let us assume \$1000) multiplied into the probability that it will be paid. The value of the pure life risk for one year at age thirty is, therefore, approximately \$8 a thousand.

When one comes to buy a life insurance policy he finds that the process is much more complicated and the cost much greater than this. In the first place the company does not insure him from year to year. That plan would mean that the cost would be very low in early life, but would increase with age, and thus bring a constantly growing load upon the individual as he grew older. For the convenience of the purchaser of insurance as well as for their own, the companies adopt a flat rate depending upon the age of the individual when his insurance is taken out. This rate will naturally be

higher than the cost of the risk at the beginning and lower than that cost as age advances. This annual payment combined with the accumulations of interest upon the payments ought to furnish a sum of money that will pay the policy in the case of the death of the representative life. This is insurance pure and simple. What the individual pays for is the pure risk which the company assumes in insuring him. On a million lives an insurance company doing business upon this plan ought, if its table of mortality represented its experience exactly, if its income from funds paid in by its policy-holders was exactly in accordance with the rate of interest assumed, and if it had no other expenses, to come out at the end of a term of years with neither profit nor loss.

What actually happens is quite different. The life risk that has been referred to is only part of the payment for which the purchaser will find himself charged. The premium upon any policy that he may take out will involve not only the cost of this life risk but a large additional load. The table of mortality assumed by the life insurance company is based upon the average life, whereas the teacher is a preferred risk. The company also bases its charges upon an assumed rate of interest of three and one-half per cent, whereas the actual interest that it realizes is approximately four and one-half per cent. Finally, there are all of the other charges involved in doing the business of the company. These charges include the cost of administration, the cost of solicitation by agents, the cost of any dividends paid to the stockholders, taxes, and all other charges over and above the life risk. In all these ways the cost to the buyer of the commodity we call insurance is increased. Let us examine in detail some of the reasons for the high cost of insurance.

The table of mortality¹ upon which the life risk is computed is based on the average life. As a rule the life experience of teachers is far better than that indicated by this table, and the cost of their insurance is at once increased by its use. The experience of the Carnegie Foundation during its ten years, while not giving conclusive evidence in this matter, indicates that the mortality of teachers does not con-

¹ The best known mortality tables and those most widely used in America are the American Mortality Table, the British Offices Table, and the McClintock Table. The first was derived from observations upon unselected American lives, the second from the experience of British insurance companies, and the last from statistics gathered from the lives of annuitants, who are generally a preferred class. The American Mortality Table is used by law in many states in computing the life risk, this legislation having been passed, generally, at the instance of the insurance companies. Thus in New York a man who buys insurance finds the cost based on one table and when he buys an annuity he finds the cost based on another. He buys his insurance on the basis of the American Table—the more expensive for insurance—and he buys his annuity on the McClintock Table—the more expensive for annuities. The character of the differences between these tables in the expectation of life at different ages is indicated in the following table, which gives also the probability at the various ages of living to sixty-five, which for convenience is assumed as the pensionable age.

Age	Expectation of Life			Probability of living to Age 65. Per cent
	American Years	British Office Years	McClintock Years	
25	38.81	38.92	38.58	54
30	35.93	35.27	35.12	56
35	31.78	31.60	31.61	58
40	28.18	27.95	28.08	61
45	24.54	24.86	24.56	65
50	20.91	20.87	21.11	70
55	17.40	17.64	17.79	76
60	14.10	14.42	14.54	85

24 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

form to the tables now in use. The following table gives the experience of the Foundation during these ten years as compared with the expectation of life in the three most widely used tables, the American Mortality Tables, the British Offices Tables, and the McClintock Tables.

The first column of the table gives the number of teachers upon the pension list from the institutions associated with the Foundation throughout each fiscal year. Thus in 1906-07 there were thirty-seven names upon the pension list on October 1, 1906. The next column gives the average age of these thirty-seven men at the date named. The next column contains the sum of the parts of the year experienced by those who entered the list during the year. The three columns following indicate the number of deaths that would be expected among all these persons according to the American, British, and McClintock tables respectively. The last column indicates the number of deaths that actually occurred in each year.

Year	Full Year Experience	Average Age	Partial Experience	Expected Deaths			Actual Deaths
				American	British Offices	McClintock	
1905-06	—	—	8.95	.7	.6	.6	0
1906-07	37	72	9.05	3.5	3.4	3.2	7
1907-08	71	71.6	5.85	6.0	5.6	5.5	5
1908-09	90	72.3	11.10	8.3	7.6	7.1	4
1909-10	129	72.6	5.80	11.0	10.6	10.0	10
1910-11	157	72.4	5.60	13.2	12.2	12.0	9
1911-12	174	72.3	5.20	14.5	13.9	13.3	8
1912-13	198	72.6	5.30	17.0	15.5	15.4	13
1913-14	207	73.1	5.60	18.5	16.8	16.7	9
1914-15	207	73.7	5.25	19.2	17.3	17.0	18
Total				111.9	103.5	100.8	83

It will be seen that the experience of the Foundation during these ten years shows a mortality among teachers below the most conservative of these tables. This result is not to be given too great weight. It rests upon too few lives and covers too short an experience. Perhaps in the long run the mortality experience of the Foundation will not differ widely from the expectation of the more conservative tables.¹

In the second place the legal rate of interest, three and one-half per cent, is lower than that realized by the most conservative insurance companies. It is true that a part of this difference is returned by some life insurance companies in the form of what is called "dividends," a term in itself a misnomer. There remains always, however, added to the cost of the life risk the load due to cost of administration, to the great cost of solicitation, to taxes, and to various other expenditures. This load varies in different organizations. The Presbyterian Ministers' Fund, which has now conducted a life insurance business very successfully for one hundred years, has reduced these costs to a low rate by doing away with agents and by the use of simple and effective admin-

¹This is suggested by the experience of the Foundation with the lives of teachers who have been pensioned as individuals. The mortality during ten years among these teachers has equaled the expectation of the Mortality tables. All insurance companies are subject to wide fluctuations in their mortality experience. A period of small losses is balanced by a succeeding period of large ones.

istration. The strong life insurance companies still pay large commissions to agents, tho not upon the scale of former years. All of this cost, from whatever source, falls upon the policy-holder and raises the cost of insurance.

It would seem at first glance that the cost of the life insurance solicitor could be entirely dispensed with, but human nature is so constituted that this has not hitherto proved possible. Insurance companies that undertake to sell insurance over the counter at low cost obtain but a limited number of policy-holders or spend large sums in advertising. The average man will not insure unless he is urged to do so by an agent, and thus the policy-holder continues to pay some one to urge him to do the thing which his own intelligence and foresight would naturally prompt him to do.

The following table indicates the difference in cost of an annual premium of an ordinary life policy of \$1000, according as one uses three and one-half per cent or four and one-half per cent as the basis of computation, the American Table of Mortality being assumed in each case.

<i>Age at Issue</i>	<i>Net Premium at 3½%</i>	<i>Net Premium at 4½%</i>	<i>Difference</i>
25	\$15.10	\$13.42	\$1.68
30	17.19	15.34	1.85
35	19.91	17.88	2.03
40	23.50	21.30	2.20
45	28.35	25.99	2.36
50	34.99	32.49	2.50

It is not easy to compare theoretical costs with the charges of the standard insurance companies, because of the fact that the mutual insurance company returns so-called dividends. It is, of course, quite evident that the initial cost of the policy in these companies is much higher than that due to the life risk alone. Thus, at age thirty the level rate, using the American Mortality Tables and three and one-half per cent, would be \$17.19; using four and one-half per cent it would be \$15.34. The stronger and more conservative life insurance companies charge at age thirty about \$24 for the first annual premium on a policy of \$1000. Later, these premiums are diminished by the return of dividends. The following table indicates the nature of the saving which could be effected over the net rates of the stronger insurance companies, after deducting the dividends, assuming an interest rate of four and one-half per cent, and continuing the use of the American Tables of Mortality.

ORDINARY LIFE INSURANCE \$1000

<i>Age at Issue</i>	<i>Cost of Risk using 4½%</i>	<i>Net Cost of Policies five years old</i>	<i>Difference</i>
30	\$15.34	\$19.24	\$3.90
35	17.88	22.14	4.26
40	21.30	25.96	4.66
45	25.99	31.08	5.09
50	32.49	38.12	5.63

26 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

In other words, the net cost to the policy-holder of a \$1000 insurance policy (ordinary life) in the standard companies is from twenty to twenty-five per cent above the cost of the life risk, and this does not include the profit which arises from the use of a mortality table in excess of actual experience.

It does not follow from this that life insurance can be furnished by commercial bodies at cost, or that it ought to be so furnished. So long as insurance is upon a commercial basis, the cost of administration, of agents, of taxes, and of other legitimate charges will inevitably make the cost of insurance to the purchaser higher than the cost of the life risk.

The cost, however, is but one phase of the insurance problem so far as it relates to the ability of the teacher to protect himself against the larger hazards of his life. It is not simply the cost of insurance, but the way in which the insurance has been used, that has hitherto so limited its value. The information furnished by some thirty-five hundred teachers shows that while a considerable proportion of college teachers carry no insurance whatever, those who do insure prefer some form of endowment insurance. In other words, the teacher, as do most men of small fixed income, looks upon insurance as a method of saving and investment as well as a method of protection from an uncertain hazard. As an investment insurance offers but meagre return. The letters of teachers who have completed their payments show general disappointment with the outcome of such policies. One teacher complains that a twenty-year payment policy in one of the large New York companies upon which he was given to expect he would receive \$3800 realized only \$1400.

Turning now once more to the picture of the teacher of thirty or thirty-five, let us see what life risk it is against which he ought to insure. If he can depend upon a retiring allowance at sixty-five, what he needs is insurance against the risk of death before that age. By that time, whether the system from which he anticipates a pension be a contributory one, or whether the pension be furnished without cost to him, his security for old age is provided. By that time, too, his children have grown up and he is interested mainly in the security and comfort of himself and his wife in their old age. What he needs is adequate insurance until such time as his pension may become available, whether it be planned to come under one form or another.

The following table will show that the cost of protecting himself against this risk is very moderate. These are the years during which his family needs protection against the risk of his premature death. They are the years during which such a disaster would cause the greatest loss, but they are also the years during which his insurance costs least. This computation has been made on the basis of the American Mortality Tables and the legal rate of interest of three and one-half per cent. Such an assumption ought to permit an agency which had no expenses for agents or for administration to pay what the insurance companies call a dividend out of the following rates. Under these assumptions the cost to insure the individual for \$1000 at different ages, the insurance to cease at age of sixty-five, is as follows:

<i>Age</i>	<i>Net Annual Premium to cease at Age of 65</i>
25	\$11.09
30	12.09
35	13.39
40	15.09
45	17.37
50	20.49

Had these premiums been computed upon the basis of four and one-half per cent instead of three and one-half per cent, they would show a reduction of about eight per cent.

A little reflection upon these figures will show how much nearer the actual protection which the teacher needs would be brought within his reach if he could purchase from some agency this sort of insurance on such terms. A policy of \$10,000 taken out at age thirty to continue to age sixty-five would cost about \$10 a month. Begun at age forty such a policy would cost a little more than \$12 a month. Under such a system the payments which teachers now make to secure small and costly policies would provide a protection somewhere near the absolute need of their families. The great body of college teachers would gladly accept such an opportunity provided the true function of insurance were understood and a trustworthy agency were ready to write such policies.

For the present misconception of the function of insurance the great insurance companies are in part responsible. They have educated the public away from the primary use of insurance. The process has been a natural one. Endowment and tontine policies mean large payments, great accumulations in the hands of the companies for investment, and greatly increased commissions for the agents. The enterprising life insurance agent naturally sells an ordinary life or a term policy only after he fails to persuade the purchaser of insurance to take one of the more expensive forms. For teachers, as for all other men upon fixed salaries, investment policies are essentially against their interest. They are justified upon one ground only, and that is the ground usually assigned by teachers themselves. Only by creating a definitely recurring obligation does the typical teacher find it possible to save money at all. He realizes, when his endowment policy matures at the end of twenty or thirty years, that as an investment it represents a poor return, but he consoles himself with the reflection that but for the insurance policy he would most probably have saved no money at all.

It goes without saying that ordinary life policies payable at death, or limited payment policies (premiums paid in twenty or thirty annual payments and the policy to mature at death), would, if furnished at somewhere near cost, meet the needs of some teachers in the matter of insurance, particularly of those who have independent means. Any agency which undertook to furnish insurance to teachers under such terms as I have indicated could offer such policies. But the typical teacher, who lives on his salary and has an annuity to look forward to, will find a policy terminating at a stated

28 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

age far better suited to his needs. A life policy can bring help only when the insured dies. To the man who survives sixty-five and who retires from active teaching the payment of the premiums becomes a serious burden. In many cases the insurance policy is mortgaged to provide needed funds for an emergency or to pay the premiums. The insurance money which comes at the end of old age rarely brings the assistance for which it was bought and for which such hard economies were practised.

There is another view of the matter not always recognized, and this is the economic view. When one insures his life for the benefit of wife and children it is not the sorrow and pain of his death against which he seeks to defend them, but the economic loss due to his premature death. This economic loss is greatest during his active life. In old age, and generally long before death, his economic efficiency has become greatly reduced. In many cases it has disappeared altogether. Under such circumstances the sum paid for life insurance represents not a payment to meet an economic loss, but the slow accumulation of years of savings upon which very small interest has been paid.

More important is still another reason. The insurance problem of a teacher who is looking forward to an annuity in old age—by whatsoever means provided—is quite different from that of the man who has no such expectation. The sort of insurance which I have just described—ordinarily called “Term Insurance”—combines with an annuity in the most advantageous way by using insurance at the period of life when it is cheapest (and at the same time most needed) and securing the benefit of an annuity in old age when small annual payments have been swelled by the accumulations of years. A plan that will offer to the teacher inexpensive insurance in his active years with an assured annuity for himself and his wife in old age and, perhaps, some protection against disability, will go as far to meet the teacher's life risks as our social machinery is now prepared to go. The method of this combination is next described.

THE COST OF AN OLD AGE ANNUITY

It has been pointed out that insurance when used for its legitimate purpose affords a means by which the risk of loss to the teacher and his family during his productive years may be economically met. The payment of \$10 a month by the teacher who begins at thirty will carry an insurance of \$10,000 to the age of sixty-five.

Let us turn now to the other great risk against which the teacher must defend himself, that is, failure of support after his activity ceases. What is the cost of acquiring an annuity to become operative at the time when his life insurance ceases?

Let us begin with the simplest case, and assume that on the day on which the teacher is sixty-five years old his insurance ceases and that he desires to have in hand at that time a sum of money large enough to purchase an annuity for the remainder of his life. At age sixty-five the expectation of life according to the American Mortality Tables is 11.10 years, according to the British Offices Tables 11.59 years, and by the

McClintock Tables 11.76 years. Using the conservative McClintock Tables and assuming the teacher could obtain four and one-half per cent interest on his money, the following annual payments would be necessary, beginning at different ages, to provide an annuity of \$1000 a year to commence at age sixty-five:

<i>Age of beginning Payment</i>	<i>Annual Payment</i>
25	\$46
30	63
35	88
40	127
45	190
50	305

If the teacher who had accumulated such payments remained in the service for some years after sixty-five, the amount of his annuity would rapidly increase. The average teacher retired thru the Carnegie Foundation is between sixty-eight and sixty-nine years old. Such a teacher, beginning at thirty the payment of \$63 a year, about five dollars a month, and continuing it to sixty-eight, would have at his disposal an annuity to the end of his life of about \$1400.

The objection to this simple form of annuity, even if some agency stood ready to pay four and one-half per cent, renders it unsuited to most teachers. The annuity thus estimated is based upon all lives, short and long. It terminates at the death of the annuitant, whether this occurs before sixty-five or after. At age thirty the expectation of life is about thirty-six years. It is, therefore, a little more than an even chance that a man at that age will live to sixty-five. For the man who survives sixty-five by eleven years the result would be satisfactory. Under such an arrangement the individual takes his chance of surviving, and for the average man the result is satisfactory. To the man who has no one dependent upon him the plan presents no particular difficulties and secures for him a support in old age. Should he not survive to old age, he has no need for such support. His money in that case will have secured for himself no return except a sense of security. His account, however, is balanced on the other hand by some other man who lives beyond the expectation.

The disadvantage of this form of deferred annuity is that it takes no account of those dependent upon the annuitant for support. For that reason it will rarely happen that teachers will use this simple and inexpensive form of annuity.¹ In most cases the teacher feels even greater anxiety for his wife than for himself as old age approaches. To meet this a form of annuity must be provided under which the accumulated funds shall be available either to the teacher or to his family as need may require.

Such an annuity must fulfil the following conditions:

1. The annuity must provide an income that will continue after the teacher's active service until the end of his life.

¹It is suggested that women teachers who have no one dependent upon them may find this form of annuity attractive.

30 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

2. A portion of this income, say one-half, must remain after the teacher's death to his wife, should she survive him.
3. Any sums that the teacher has paid in must be returned to him with a fair interest in case of his retirement from the teaching profession. In case of his death before the age of retiring, his accumulation must be returned with a fair interest to his estate either in the form of a cash payment or in the form of an annuity to his wife. In case of the early death of either or both after his retirement, any sum remaining to his credit must be returned to his estate.

These provisions completely defend the teacher and his wife in old age. No provision for the support of children has been included for the reason that in the earlier years children are protected by insurance. By the time the teacher has come to the age where he must depend upon an annuity or a pension his children will as a rule be self-supporting. To undertake an annuity system which shall include the protection of children enormously complicates the entire problem. It is impossible for any plan of insurance and annuities to meet all contingencies. A plan that provides fair insurance during the productive years and a living income during later years, and that cares for the widow of the teacher goes as far as any plan ought at this day to seek to go in meeting the hazards of the teacher's life.

If we assume that the teacher desires at the age of sixty-five to have ready for himself an annuity of \$1000 a year, half of this after his death for his wife, and to have any remaining sum of his accumulations returned to his estate, it would be necessary to have available at that date \$10,640.20. In order to accumulate this sum, assuming again that some agency stands ready to pay four and one-half per cent on the money, payments must be made at the respective ages such as are shown in the following table; the McClintock Tables are used.

<i>Age of beginning Payment</i>	<i>Annual Payment</i>	<i>Equivalent Monthly Payment</i>
25	\$97.25	\$8.11
30	127.71	10.64
35	170.60	14.22
40	233.54	19.46
45	331.77	27.65
50	500.76	41.73

These figures are given in terms of an annuity of \$1000 a year. It is a simple matter to compute from this the cost of an annuity of \$1500, \$2000, or \$2500.

It is also to be noted that sixty-five is chosen as the minimum age of retirement. In most cases the teacher in good health will desire to remain in active service for some years longer. In such an instance his retiring allowance increases and the amount which he would leave in case of death to his family accumulates rapidly with each year.

Without complicating these figures with the many variations which could be made to illustrate the cases of different teachers, let us clearly grasp their significance. The table shows that a teacher beginning at age thirty a monthly payment of \$10.64 and

continuing to make such payments until the age of sixty-five, provided he can place his money at four and one-half per cent, will have accumulated a sufficient sum to provide an annuity of \$1000 a year during the rest of his life, half this annuity to a surviving wife, or in the case of their death a considerable sum of money for his estate. This simple computation also enables the college teacher to appreciate more clearly than he could perhaps in any other way exactly what is done for him, whether by the college or by some other agency, when a free pension is provided. For a teacher at thirty years of age it means simply that his pay has been raised by the amount of \$10.64 a month!

To attain such a result, however, two things are necessary: first, the foresight to begin the payments at an early age and the persistence to continue them, and secondly, some agency must be found ready and able to guarantee four and one-half per cent upon the teacher's deposits. This interest is practically the rate which conservative insurance companies at the present day realize upon their funds, but no savings bank or trust company will guarantee any such income to depositors. It is at precisely this point that an institution like the Carnegie Foundation, having back of it a large endowment, finds its opportunity. It could at small cost guarantee to teachers the rate of interest that has been assumed. For many years to come the prevailing rate of interest promises to be even higher. It seems clear that there is here suggested the means by which permanent and satisfactory provision for old age may be provided for teachers by a method at once dignified, safe, and within the reach of the teacher and his college.

Before proceeding to develop the part which an agency like the Foundation might take in this plan of coöperation, let us illustrate the working of the insurance and annuity plan by assumed cases typical of the experience of teachers.

ILLUSTRATIONS FROM THE LIVES OF REPRESENTATIVE TEACHERS

It will be remembered that the typical teacher begins as an instructor; at the age of thirty he has a salary of \$1400 a year, at thirty-five he is an assistant professor with a salary of \$2000, between forty and forty-five a full professor with a salary of \$3000.

From the following table any combination of insurance and annuity desired may be worked out.

<i>Age of Beginning</i>	<i>Premium on \$10,000 Policy to cease at Age 65</i>	<i>Annual Cost to accumulate \$1000 Annuity at 65</i>	<i>Total Cost</i>
25	\$110.90	\$97.25	\$208.15
30	120.90	127.71	248.61
35	133.90	170.60	304.50
40	150.90	233.54	384.44
45	173.70	331.77	505.47
50	204.90	500.76	705.66

The most striking lesson to be learned from this table is, of course, the moderate

32 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

cost of insurance and annuity if one begins early in life. Insurance for ten thousand and a life annuity for one thousand dollars costs a little more than \$20 a month to one who begins at the age of thirty.

This table emphasizes also the rapidity with which the cost of the annuity increases in proportion to that of insurance. At age fifty it requires \$500 a year to accumulate an annuity of \$1000 to become operative at age sixty-five, while \$200 a year will carry an insurance of \$10,000 during that same interval. In other words, a teacher whose salary increases can afford to take out more insurance, while in the early part of his life he should put a larger proportion of savings into accumulation. It is sometimes stated that it is more difficult at the age of twenty-five to accumulate \$100 a year out of a salary than \$300 a year at the age of forty-five, but there is at least a question as to the truth of this assumption. The experience of teachers generally is that such savings as are made come in the earlier years when the demands of children and of social needs are not so great. It is exactly these savings which mount up rapidly in old age, and a teacher whose savings have begun to accumulate may easily prefer to effect later in life a readjustment between insurance and annuity contributions.

The cash accumulations at four and one-half per cent to the credit of the annuitant or his heirs as time goes by are shown in the following table:

Age of beginning Payment	Annual Pay- ment to accu- mulate \$1000 Annuity at Age 65	Capital at Ages							
		25	30	35	40	45	50	55	60
25	\$97.25	\$97.25	\$543.91	\$1221.71	\$2066.39	\$3119.00	\$4430.74	\$6065.42	\$8102.52
30	127.71		127.71	714.26	1604.37	2713.61	4095.91	5818.51	7965.20
35	170.60			170.60	954.14	2143.18	3624.94	5471.47	7772.59
40	233.54				233.54	1306.16	2933.87	4962.31	7490.08
45	331.77					331.77	1855.54	4167.89	7049.52
50	500.76						500.76	2800.68	6290.84

It is to be noted that few teachers desire, if in possession of full health, to retire at sixty-five, but remain for one, two, three, or five years longer. Every year above the assumed minimum rapidly increases the amount of the annuity, and, therefore, the amount of the cash sum, if so desired, which would come to the teacher's family. The table that follows shows the annuity which the teacher who had accumulated a thousand dollar annuity would receive at ages later than sixty-five, should he remain in active service, even tho he discontinued after sixty-five all subsequent payments upon the annuity.

Age	Accumulated Capital	Amount of Annuity
66	\$11,119.01	\$1,074
67	11,619.36	1,155
68	12,142.23	1,242
69	12,688.63	1,337
70	13,259.62	1,440
71	13,856.30	1,554
72	14,479.84	1,676

Let us follow a case typical of the experience of the average teacher and of the average college. Starting a teacher as instructor at age thirty, let us assume that a minimum insurance of \$5000 and a minimum annuity of \$1000 a year is decided upon. The annual cost of the two would amount to \$188.16 or about \$15.68 a month. Five years later the teacher finds himself in the possession of a salary \$500 larger than he had formerly, and he decides to devote \$100 a year to an increase in his protection. In view of the rapidity with which the cost of the annuity grows with years, he decides to put this into the form of an annuity, and thus obtains an increase of some \$600 in the annuity, which is thus brought up to \$1600. Five years later, at the age of forty, finding himself again in possession of a still larger salary, he decides to take out \$5000 more of insurance to end at age sixty-five, which would cost him about \$75.

Should this teacher live to sixty-five, he would have available for his use a retiring allowance of \$1600. Should he continue in service three years longer but make no more payments, his retiring allowance would amount to \$1987. His wife, in case she survived him, would share in this retiring allowance. Should this teacher die between the ages of forty and sixty-five, he would leave to his family an insurance of \$10,000 and his accumulated savings, which would amount in cash to the following sums at the respective ages:

<i>Age at Death</i>	<i>Cash Value of Accumulated Savings</i>
40	\$2,176.85
45	3,999.52
50	6,270.87
55	9,101.39
60	12,628.75
65	17,024.32

In comparison with the protection which this teacher and his family would enjoy, for a maximum cost of a dollar a day, the average college teacher and his family are practically unprotected. Yet his annual payments are only one and a half times those now made by teachers for life insurance alone. With the participation of his college this cost would be but little more than that now spent for inadequate insurance. From the tables which have been given, any teacher may work out any combination of insurance and annuity that he desires.

These illustrations might be indefinitely multiplied by varying the combination of insurance and annuity, or by varying the age at which the teacher undertakes the one or the other. Enough, however, has been said to demonstrate the fact that, if we consider the teacher not in old age but in the earlier years of his career, a modest payment will provide adequate protection thru insurance during his productive years and satisfactory support for himself and wife after his active service ceases.

ARE PENSIONS WAGES?

The effort has been made to show that the primary responsibility for the teacher's protection rests upon himself. It ought to be said that the correspondence that the Foundation has had with college teachers proves the existence of a general sentiment among them in favor of some form of pension system under which the teacher may carry his fair share of this load. Movements for free pensions have been inaugurated in various states by public school teachers, but the college teacher as a rule desires to know what his responsibility is, and is ready to shoulder whatever load ought to devolve upon him as a husband and as a father. The advocacy of free pensions by public school teachers has been due in large measure to lack of information concerning the working of these systems in other countries. The proposition that the state furnish pensions without cost to the teacher appeals at first glance to those interested. The proposal touches that almost universal chord in human nature which responds to the notion of getting something for nothing. Like most such economic and social efforts, experience shows that the man who receives something pays for it in the long run.

It is generally agreed by economists that a free pension provided by an employer, whether that employer be a government or an industrial organization, is in effect a part of wages. "In order to get a full understanding of old age and service pensions, they should be considered as a part of the real wages of a workman. There is a tendency to speak of these pensions as being *paid* by the company, or, in cases where the employee contributes a portion, as being *paid* partly by the employer and partly by the employee. In a certain sense, of course, this may be correct, but it leads to confusion. A pension system considered as part of the real wages of an employee is really paid by the employee, not perhaps in money, but in the foregoing of an increase in wages which he might obtain except for the establishment of a pension system."¹ While, in the matter of employment, teachers are situated differently from industrial workers, the economic relation of employer and employee affects them directly, and it is equally true of teachers as of industrial workers that in the long run and under a permanent system of pensions the teacher will pay a large share of his own pension, whatever system is adopted.

To demonstrate this statement by statistics is not so easy, but even in the short history of the Carnegie Foundation many circumstances have combined to show the tendency. It is quite true that salaries in American colleges and universities have been increased in recent years, and are likely to be still further increased. Hitherto these salaries have not been affected by the existence of the pensions of the Carnegie Foundation in a small number of institutions. There is noticeable, however, in these institutions a tendency to hold instructors or assistant professors by the help of the pension.

In one way or another the individual who makes his career as a teacher, beginning as an instructor and passing thru the grade of assistant professor to full professor, is

¹ Albert de Roode: *American Economic Review*, vol. iii, No. 2, 1913.

almost sure in the course of his life to pay for his pension, even tho it is provided by some other agency. The only way in which he can be sure that this will not happen is to live under a system in which the question of pension and the question of pay are separated. It will require a generation of the operation of any free pension system to demonstrate this tendency to teachers themselves.

An interesting commentary upon the attitude of employees after a long period of service under a non-contributory pension system is afforded by the action of the civil servants under the British Crown towards the pension system maintained for their benefit for a period of fifty years. After long agitation by employees, and in response to an overwhelming vote of dissatisfaction over the pension system, a Commission was appointed to report on the whole matter, resulting in the enactment of September 30, 1909, "which undertakes to overcome the objection of the civil servants to the forfeiture of their theoretical contributions, in case of premature death by providing insurance benefits in lieu of a part of the pension."

The contention of the employees was that pensions were merely deferred pay and in the long run came out of the wages of employees, and that those who survived received this deferred pay at the expense of those who died. The Commission accepted this contention, and undertook to equalize the benefits by insurance. The significant fact is that while the British Civil Service plan did not require contributions, 70,000 out of 100,000 employees contended that the pensions were deferred pay, and that they would have preferred a contributory system like that of banks, railways, and municipalities. Furthermore, the Commission accepted their contention in the question of deferred pay. Employees—whether in the civil service of a government or in the employ of a corporation—who are receiving a pension at the hands of an employer are likely in the long run to look upon their pensions as deferred wages. It is alike in the interest of employer and employee to separate the question of pay from the question of pension.

The teacher, like all other men, is subject to the workings of those economic and social forces which determine the rewards in all callings. It is, therefore, to his interest that the question of pension and the question of pay be separated. It is equally to his interest that his rights rest upon contractual relations, and that he have a voice in the management of the pension system. These he can demand only when he participates in the financial cost of the relief system.

TEACHERS' INVESTMENTS

Considering the modest salary of the teacher, this title may seem a misnomer, yet in the total a large sum of money is invested each year by college teachers. Thru a correspondence with some three or four thousand teachers efforts have been made to ascertain the character of these investments, and particularly of the investments of teachers in life insurance.

36 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

Enquiries show that among teachers in small colleges a common form of investment is the purchase of a home accomplished by gradual payments. Individual teachers invest in all the varying enterprises that attract other investors, including speculative ones, but the most common form of investment is insurance. The average teacher spends about five per cent of his income on some form of insurance.

To ascertain the practice of American college teachers in the matter of insurance and to obtain also their wishes with regard to it, a letter was sent in December, 1914, by the President of the Foundation to each one of the five thousand teachers in the universities, colleges, and technical schools associated with the Foundation, asking the coöperation of these teachers in ascertaining the facts concerning the participation of teachers in insurance and their wishes and needs with regard to it. Replies were obtained from some thirty-five hundred teachers, or about seventy per cent of those to whom enquiries had been sent. Some anxiety was felt lest this seventy per cent of answers was not representative of the whole number of teachers involved, but by taking up studies of particular colleges it was ascertained that those who failed to answer were on the whole representative of the majority. They were not made up, as was at first suspected, mainly of those who had no insurance. Some had insurance and did not desire more, some had no insurance at all, some did not care to reply to a letter of enquiry for one reason or another. On the whole, the majority which did reply seems to be thoroughly representative.

The summarized experience of these thirty-five hundred teachers in institutions scattered thru the United States is shown in the following table:

	<i>Age</i>	<i>Salary</i>	<i>Insurance</i>	<i>Annual Cost</i>	<i>Percentage of Salary</i>
Instructor	30	\$1400	\$2000	\$60	4½
Junior Professor	35	2000	3000	100	5
Professor	40-45	3000	5000	150	5

The first salient fact is that a considerable proportion, nearly twenty per cent of teachers, carry no insurance at all. This proportion is larger naturally among the younger teachers. Eighty-six per cent of full professors have insurance in some amount, while only seventy-eight per cent of instructors have insurance.

Omitting women teachers, who constitute about one-twelfth of the whole number, ninety-three per cent of full professors are married or are widowers with children; eighty-seven per cent of intermediate professors and seventy per cent of instructors are married.

The number of children in the families of full professors varies from zero to ten, but the typical family has three children. In the western states the typical family is somewhat larger, that of New England somewhat smaller, than the normal. The number of children in the families of intermediate professors varies from zero to eight, and the typical family includes two children with also a tendency to larger families in the West. The number of children in the families of instructors varies from zero to six, and the typical instructor's family contains one child.

Characterizing the whole group of college teachers by a single statement, it may be said that the typical teacher's family consists of himself and wife and two to three children. In addition it is not infrequent that there are other dependents who look to the teacher for support.

Of one thousand teachers carrying one thousand and forty-four policies, it was found that four hundred and fifty-five endowment policies were taken out, four hundred and eleven limited payment life policies, two hundred and sixty-eight ordinary life policies, one hundred term insurance policies, and the remainder were scattered between fraternal orders, accident, tontine policies, and other offerings of insurance companies and fraternal orders. In other words, the teacher has used insurance partly as an investment rather than solely for its legitimate purpose.

One reason is given by teachers for preferring insurance to any other form of investment, and this reason has much to do with the fact that teachers have invested their savings to such a large extent in insurance. Many teachers write that they have taken out endowment policies for the reason that this involves an obligation for a regularly recurring payment either annually or semi-annually. The teacher thus places himself under an obligation which he cannot well avoid. Without this definite fixed obligation a large proportion of teachers find that they would make no saving from income whatever. It seems clear from the tenor of many of these letters that the use of insurance as an investment, and particularly the preference for endowment insurance, is in no small measure due to the fact that this form of investment provides a means by which the teacher is not called upon for a large payment at one time, but under which he accepts an arrangement which compels him at regularly recurring intervals to set aside a part of his income which otherwise would not be saved at all. It is evident that any form of saving which teachers might enter upon involving either insurance or annuities should rest upon payments of small amounts made at regularly recurring intervals. Monthly payments would best suit the financial régime of the teacher, and offer him the most practical means of saving and investment.

THE FINANCIAL LOAD UPON THE COLLEGE

I have sought to develop up to this point the fundamental principles upon which the protection of the teacher's family and his own security must be based, and in the second place to point out a plan under which these two ends can be accomplished at a feasible cost. It has been shown that both objects can be accomplished by a combination of legitimate insurance during the productive period of life with the growth of savings from interest as they accumulate over a long period of time. It remains to show that a participation in this program is within the reach of even the small college, provided some agency like the Carnegie Foundation stands ready to supply insurance and annuities upon favorable terms.

As a starting-point let us assume as a minimum provision for the teacher an insur-

38 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

ance of \$5000 to continue until age sixty-five and an annuity of \$1000 a year to begin at sixty-five. The cost of such a minimum provision is shown in the following table:

<i>Age of beginning Payment</i>	<i>Cost of Insurance</i>	<i>Cost of Annuity</i>	<i>Total</i>
25	\$55.45	\$97.25	\$152.70
30	60.45	127.71	188.16
35	66.95	170.60	237.55
40	75.45	233.54	308.99
45	86.85	331.77	418.62

The protection thus furnished falls far short of what is ideal, particularly in the matter of insurance. It may be fairly argued, however, that the college may justly confine its participation to an agreed minimum, leaving to the teacher himself, as his salary increases, the responsibility of increasing either the insurance or the annuity, or both. In any such plan the college ought to assume a limited liability.

The cost of this minimum amounts to about fourteen per cent of the salary, whether one begin at twenty-five or forty, altho the annual payment is smaller the earlier the age at which participation begins. If, therefore, a college agreed to carry half the cost of this minimum, the load it would assume would be equivalent to an increase in the salary roll of its teachers of somewhere between five and seven per cent. (The great mass of men would enter at younger ages corresponding to the minimum salary scale.)

A college which desired to participate to a greater extent in the relief plan, or to offer to a particular teacher a special inducement thru added protection, could vary its participation as it might desire. The assumption of half the expense of \$10,000 insurance and \$1000 annuity would be equivalent to approximately an eight per cent raise in salary.

The cost of participation in this system of insurance and annuities is thus within the reach of any endowed college strong enough to maintain good courses of instruction and honest standards of admission. The expense can be met by a moderate increase of endowment, or by the use of part of current income, or by a combination of the two. The essential fact is that such a load is comparable in cost to the other things which college trustees constantly undertake—the increase of salaries, the erection of new buildings, the addition of dormitories. In a considerable number of institutions the sums devoted to advertising or to the promotion of athletics would carry the cost to the college of participation in such a relief plan. Just as the teacher's ability to participate depends on his own foresight and self-denial rather than upon the amount of his salary, so also the ability of the ordinary college to do its part in some such orderly plan rests mainly upon the recognition by the college corporation of its obligation to its own employees as one comparable with other claims.

It requires but a moment's consideration to show the enormous difference between such a load and that which a college must assume if it shoulders the cost of a free system of pensions to its old teachers. The cost of one two thousand dollar pension for one

year would carry the expense of the college participation in the minimum just assumed for twenty teachers who began at thirty years of age!

While it is thus clear that a rational pension and relief system can be instituted upon a financial basis quite within the reach of the modest college or university, the moral and economic obligation of the college to carry its share of the pension load is no less clear and has already been discussed. Just what proportion of this load is the share of the college may be a matter of discussion. I have assumed for the sake of simplicity that the college is to carry one-half of an assumed minimum.

It is of course a fair subject of discussion whether the college should confine its participation to the annuity alone. Under the plan proposed the teacher will be able to purchase insurance at cost. The obligation of the college for the maintenance of a pension system is clear. No corporation has a right to expect that a system of retirement, in which it is directly interested, will be established without its participation; nor can it expect its employees to support entirely a system of relief the benefits of which, in part at least, accrue to the corporation. The obligation to share in insurance is not so clear. Let us assume as another basis of participation that the Carnegie Foundation furnishes to the teacher insurance at cost and carries the disability cost, and that the college and the teacher coöperate in the support of a system of annuities available at the minimum age of sixty-five, when the insurance ceases. Let us see how such an assumption will work out, and the character of the load that would be imposed upon the teacher and upon the college.

Let us assume, in the first place, a typical teacher's experience, and determine the cost of an annuity and the distribution of the cost as between the teacher and the college. The teacher at, say, thirty upon a salary of \$1500 will begin an accumulation for an annuity in proportion to his salary. As his salary increases, he will need to increase his savings, but here again the circumstances of each man's situation can be made to adjust themselves to his problem. The man who never receives a salary of more than \$1500 will find a pension of \$1000 quite in proportion to his economic experience. The teacher who receives \$2500 or \$3500, or more, will desire an annuity in proportion. Assuming such a situation, a typical experience of a small college would be as follows, assuming again that the wife of the teacher participates in the annuity, and that unused accumulations are returned in accordance with the rates given on page 30.

ILLUSTRATION OF EXPERIENCE OF SMALL COLLEGE

Age	Salary	Amount of Annuity	Annual Cost,	Cost to College of Half Participation	Equivalent Raise in Salary
30	\$1200	\$1000	\$128	\$64	5.3%
35	1600	1200	161	80	5.0
40	2000	1400	208	104	5.2
45	2500	1600	274	137	5.2

This experience would be typical of moderate-sized, strong colleges. Should this

teacher continue without further increase and retire as soon as he became sixty-five, his pension of \$1600 would almost exactly equal that which he would now receive from the Carnegie Foundation (\$1650) in an associated institution. Should he continue in active service some years later, the pension he would receive would exceed that of the Carnegie Foundation.

It goes without saying that many details remain to be settled. For example, a teacher begins as an instructor, and the college coöperates with him in providing an annuity. Five or ten years later, he leaves teaching altogether. What becomes of the accumulations? In such a case, the rules would doubtless provide for the return to the individual and to the college of the accumulations of each with interest.

The situation would be similar in the case of a teacher in a university. The following table represents the life experience of a teacher in one of our largest institutions. Beginning with a pay of \$1500 at the age of twenty-five, he advanced to \$3500 at the age of fifty-five. His pay has not been increased since, and he is now sixty-five. Should he retire to-day, his pension from the Carnegie Foundation would be \$2150. Let us see how this would have been worked out upon the basis of a coöperation between the college and the teacher:

<i>Age</i>	<i>Salary</i>	<i>Amount of Annuity</i>	<i>Annual Cost</i>	<i>Cost to College of Half Participation</i>	<i>Equivalent Raise in Salary</i>
25	\$1500	\$1000	\$97	\$48.6	3.2%
30	2000	1500	161	80.5	4.0
35	2000	1750	203	101.5	5.0
45	2500	2150	336	168.2	6.7
55	3500	2150	336	168.2	4.8

The plan of insurance and annuities as developed in the preceding pages is feasible and rests upon a sound social philosophy. It is unlikely that a permanent system of relief for teachers can be built up on any other lines. Nor will the teacher ever be secure until he can have a personal contract for his insurance and for his annuity.

In the practical carrying out of the plan one great difficulty remains. The whole argument has rested upon the assumption that the teacher and the college begin their coöperation in the relief system while the teacher is still young—below forty-five. If a college, or an industrial establishment, or a railway could start to-morrow with all its employees thirty years of age, the inauguration and conduct of such a system of relief would be simple and easy. This ideal situation from the pension point of view never presents itself. Those who make up the workers in an organization, whether it be a college or a factory, include many old men, some of them already failing in the strength to carry their work. Such men are too old to participate in any relief plan, and the cost of paying their full pensions is too heavy for any college to bear. This is the load known under the term "accrued liabilities," the load of pensions already accumulated upon the lives of men above middle age. It is the spectre of the accrued liabilities that has held back the strongest colleges from undertaking any pension

plan. For a generation the cost is prohibitive, and no college has been willing to inaugurate an insurance and annuity system which was to apply only to younger men, one whose fruits were to be reaped only after the lapse of years. In this way the shadow of the accrued liabilities of one generation has always obscured the pension rights of the generation to follow. It is necessary at this stage of the discussion to deal with this question, which lies squarely in the path of any pension plan which can be devised.

THE ACCRUED LIABILITIES

Every plan for maintaining a pension system has sooner or later encountered the difficulties of the accrued liabilities, and upon this rock most pension schemes have foundered.

Various methods have been adopted in dealing with pensions for old men who have borne no share in their cost. In certain government pensions, where the unlimited resources of the government were available, the accrued liabilities have been paid in full as they have matured, no matter how great the expense. More commonly the pension system, as in some of the Australian states, has broken down under the gradually accumulating weight of these liabilities.

In some cases, in anticipation of this danger, the scale of pensions for a generation has been cut to a point so low as to make their payment possible, but such a precaution generally destroys the practical value of the pension system. A pension must bear some reasonable relation to the income earned in active service in order to bring relief. A pension which would be satisfactory in amount to a laboring man would bring scant relief to a retired teacher.

Still another method of dealing with the accrued liabilities is not to take them into consideration at all in the establishment of the pension system, but to open the opportunities of the pension system only to young lives. While this method is financially sound, the objections to it are too great to be overlooked. Such a solution leaves the generation which has borne the burden of the day uncared for, a situation which offends our general sense of justice. Furthermore, as a practical matter a pension system that is to show its results only after a lapse of many years requires a more sustained effort than most organizations find it possible to make. Whatever solution is adopted, however, the rights of the coming generation to a fair pension system should not be overshadowed by the sympathy for the needs of the generation just passing from active service.

In the inauguration of what is to grow into a satisfactory pension system for the institutions not now associated with the Foundation some compromise will have to be made for a series of years between the assumption of the entire load of accrued liabilities and the refusal to deal with them at all. Like nearly all other problems connected with pension and relief plans, that of the accrued liabilities must be solved partly upon financial considerations and partly upon the basis of the larger human

interests, and an appeal must be made to the sense of justice of all who are involved. On the one hand it is unfair that old men ready to retire should devolve a large part of the burden of their pensions upon younger men, a result which would be brought about if they participated in the pension plan at the same rate as younger men. It would further be a disappointing attitude if the old men of any group, whether in the industries or in universities, opposed the institution of a relief plan because their wants could not be completely met. No generation has the right to demand that the interests of succeeding generations be sacrificed in its behalf. This would be the practical attitude of a group of individuals who opposed a system of relief which for fundamental reasons could be started only with young lives, because it did not meet with the needs of the old. One can scarcely imagine a group of teachers assuming this attitude. On the other hand, while the man who is forty or younger might be dissatisfied if he were taxed at a higher rate than his own risk called for in order that the man of sixty might obtain a pension practically free, nevertheless he could scarcely object to an arrangement under which the college for a term of years gave a relatively larger share of its support to the older men for whom the pension system had come too late. Under some such compromise as this the old teacher of the present day might be called upon to accept a smaller pension or to wait longer for it than would have been the case had he been able to enter the pension system at the appropriate age, and the young teacher must be satisfied with a smaller participation in such moneys as his college can appropriate to the demands of a relief system.

By some such plan each college and group of teachers will find it possible to work out a practical solution, if fairness and breadth of view are present both on the part of trustees and teachers. The essential facts should not be lost sight of. A feasible and permanent relief system involving insurance and annuities can be started only with young lives. It would be a misfortune if the obstacle of the accrued liabilities should always stand in the way of the institution of a right system. To do this would be to sacrifice each generation for that which has gone before. Some compromise must be found under which the accrued liabilities may be dealt with to the best ability of the colleges and of such agencies as are interested in this problem without sacrificing the needs of the next generation.

The college that is willing to face its responsibility as an employer, therefore, will have to decide first of all what proportion of its income it can rightfully devote to a relief system, and how that appropriation can be fairly apportioned between regular pensions and the accrued liabilities. Hitherto colleges have never had the opportunity to consider any other phase of the problem than that presented by the accrued liabilities, or in other words the payment of the full pension of old men ready, and in many cases needing, to retire. For them a relief system of this kind is prohibitive. A college that could pay without difficulty \$100 or \$150 a year for a period of thirty or thirty-five years would find itself helpless if called upon suddenly to pay \$1500 or \$2000 a year for a pension for this same teacher when he has arrived

at the age of sixty-five or seventy. The small annual payment would have been in the nature of a moderate increase in salary, while the payment of the full pension represents a sum beyond the reach of the college authorities. The situation is somewhat like that which would confront a business corporation if it undertook to pay off its bonds at maturity by a lump sum from its income instead of providing for them by an annual sinking fund.

This problem of the accrued liabilities is one that touches the activities of the Carnegie Foundation most closely, for the payment of the accrued liabilities is precisely what the Carnegie Foundation has been doing for the colleges and universities associated with it. During the last ten years it has lifted from the shoulders of the trustees of these institutions their accrued liabilities in the pensions of old men. It would doubtless have been wiser had the Foundation at its inauguration agreed to assist in these accrued liabilities for a term of years on the condition that a permanent and sound pension plan be inaugurated by the colleges and their teachers. At that time, however, the whole matter was but little understood by any one. The purpose of the gift and the intention of the Founder looked to the free payment of pensions to college teachers. The trustees and their advisers accepted the practice of European governments. These ten years of experience and exhaustive study of other pension systems have given, however, a new illumination of the extent and the nature of the problems. Traditional knowledge has been proven inadequate, and accepted opinions untenable. In the light of this experience and in view of the social philosophy and the financial results of other pension systems, it seems to many who have given thought to these questions that the time has now come to determine in what way the Foundation may not only carry out its obligations to the colleges associated with it, but also seek to put into operation a permanent system for the protection of teachers and their dependents, applicable to all of the higher institutions of learning throughout the United States, Canada, and Newfoundland. The plan which has been elaborated has an elasticity that will enable it to fit the case of any college or of any teacher. While it involves the coöperation of colleges, it contemplates an individual contract and an individual account, capable of being adjusted to whatever changes the teacher himself may encounter.

THE RISK OF DISABILITY

Before proceeding to summarize in some detail the methods by which it is proposed to establish a permanent system of relief thru the coöperation of teachers, college boards, and the Carnegie Foundation, a word should be said of one other risk hitherto merely referred to. The two capital risks, that of premature death and of inability to earn a living after sixty-five, have been fully dealt with. There still remains the hazard of invalidity.

This is a disaster infrequent in occurrence, but with consequences more distressing than any other which overtakes the man of small income with a dependent family.

44 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

Few applications made to the Carnegie Foundation have been so pathetic as those in behalf of those teachers yet young, with families dependent upon them, who break down in health, or the yet rarer case of him who by some sudden accident is left a stricken and broken man with the burden of family obligations upon him. Thus, a teacher who has had twenty years of service develops tuberculosis and from an independent wage-earner becomes himself a burden. No situation is more painful for a man of cultivation and independent spirit. Its occurrence is comparatively rare, yet it is one of those disasters against which the profession of the teacher should be protected if feasible means can be found.

In considering such means it may be said in the beginning that no relief plan for those who become invalids thru ill health or accident can be adopted that is to take effect immediately upon the entry of a man into the calling of the teacher. A large number of men become teachers, remain a few years, and pass into other callings. These men make but little contribution as a rule to the work of the teacher. No plan of dealing with invalidity and disability should include these cases. Only after a teacher has been a certain number of years in the profession, let us say fifteen or twenty, can he expect to share in a plan devised for the protection of teachers against the hazards of their calling. The rule of the Carnegie Foundation provides that teachers in the colleges associated with it who have had twenty-five years of service as professor, or thirty years of service as instructor and professor, are eligible to a disability pension in cases of total breakdown as shown by medical examination. This means that a teacher is on the average well over fifty years of age before he can claim any protection from this provision.

In seeking to deal with this problem it is clear that a distinction must be made between what can be done in the case of insurance and annuity and what can be done in the case of invalidity. An agency dealing with the insurance of teachers must deal with them in accordance with the law of the state under which it is organized. The accumulation of the fund for an annuity is practically a savings bank proposal under the direct scrutiny of the state.

Many regular insurance companies now include a disability provision in their insurance contracts. This provision takes care of the premiums on the insurance contracts in case of disability. The experience of these companies has not been sufficiently large, however, to give a sound actuarial basis for the calculation of a disability premium. From three investigations which have been made it is evident that about twenty cents a year per \$1000 needs to be added to the premium at the age of thirty in order to guarantee the payment of premiums in case of disability. The risk arising from the inability to pay the premiums up to the age of sixty-five on account of disability can thus be carried at an extremely small cost.

The actual cost of providing a moderate pension, let us say of \$1000, in the case of those who become invalids has been very difficult to obtain. Thru the insurance companies the Foundation has made every effort to ascertain the cost of this risk,

and the companies have most kindly coöperated by placing at the disposal of the Foundation the results of their experience. The outcome of this examination goes to show that the actual load coming from disability pensions from a group of five thousand teachers is a very small one, not comparable to the cost of the two capital risks to which allusion has already been made. It has seemed, therefore, to those who have studied this problem carefully, that this risk is one which might well be assumed by the Foundation as coöperating agency under some such conditions as the following: In case of a teacher holding a contract for insurance and annuity and whose health completely fails after a service of fifteen years as professor, or twenty years as professor and instructor, the Foundation would at its own cost continue to pay during the period of his invalidity the premiums on his life insurance policy and also a minimum pension of \$1200 a year, the benefits to his family in the case of his death being determined by the rules which govern all other cases. This recommendation is made after a long enquiry and upon the ground that the disability provision, being an extraordinary and unusual one, can best be borne by the Carnegie Foundation itself in its coöperating capacity without introducing complications into the system of insurance and annuities by which the capital risks of the teacher's life are to be dealt with. Actuarial computations show that this load is well within the income of the Foundation once the system is upon its normal basis, and it is believed that no better use could be made of the trust funds than to devote such proportion of them as may be necessary to meet this extraordinary and difficult situation.

THE TEACHER'S COÖPERATION

Insurance, as has already been pointed out, is nothing other than a defence against an uncertain risk by means of coöperation. The obligation to provide this defence for one's family is necessarily left to the individual man in the ordinary callings of life and in the professions. Thus the business man who keeps a small shop, the practising physician, or the lawyer provides insurance, or does not provide it, as he may determine. Such callings are conducted by men in their individual capacity. It is difficult, if not impossible, to group together business men or lawyers or doctors into a homogeneous group for the purpose of coöperation in insurance. For college teachers this can be done because they are in an economic sense employees, they work upon fixed salaries, they are gathered in groups of twenty, fifty, five hundred, in some hundreds of institutions throughout the country. The scale of pay in these groups is in a general way the same. It is possible to bring so homogeneous a body of men into coöperation in insurance or in the accumulation of annuities. It is not possible to gather together individuals who are not members of distinct organizations, and with whom there does not exist the definite economic relation of employer and employed. To the teacher working in one of these college groups a plan of coöperation in insurance and annuities offers enormous advantages, but in order to secure these advan-

46 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

tages it is necessary that the participation of the teacher in any college that desires to share in the plan of coöperation should be a condition of his service to the extent of at least an agreed minimum. Without this neither the individual nor the general plan of coöperation can succeed, as the experience of all insurance and pension associations which have been contributory but not compulsory has proven. Any college, therefore, that desires to participate in such a plan would find it necessary to require those entering its service to participate in the program of insurance and annuity to the extent of the agreed minimum; or, to put the matter in another way, the college having done its share would, if it were to be successful in its coöperation, require that the teacher entering its service should undertake a corresponding participation as a condition of employment. What would result would be not only a distinct separation between the question of pension and the question of salary, but an increase of salary to the extent of the participation of the employing college.

This situation illustrates the questions that arise in any coöperative social movement. It is not possible to have simultaneously all the freedom of individualism and all the benefits of coöperation, but in this, as in most problems of social organization, it is possible to secure the essential benefits of coöperation without surrendering that measure of freedom to which all members of our social order are entitled. Therefore, the difficulties of administration would be greatest at the beginning, and reasonable adjustments would have to be made for men who had invested in insurance to the extent of their ability and who did not desire to give up such investment. To men entering the teacher's profession no such question would occur, and as time went on the difficulties of individuals would become less and less. With patience it would be possible to work thru that more difficult period of adjustment to the point where the great benefits of a universal and adequate system of insurance and annuities can be realized.

Apart from the question of his own interest, there rests upon the American college teacher a distinct social obligation in the solution of this matter. This arises out of the stage of development which the pension question has now reached in the United States. A process is now going on for the inauguration of pension systems for wage-earners in industrial companies, such as railways, manufacturing companies, and banks. Similar pension systems are being urged for public school teachers in the cities and states. The pension systems started by all of the American transportation and manufacturing companies are free pensions paid entirely by the company and upon conditions laid down by them. The employee has no contractual right in the pension, nor has he any share in the management of the pension system. The absence of the obligation to participate and the absence of a contractual right which such participation would give are serious objections to all these plans, and in the long run are likely to bring about a situation in which the giving of a pension will be translated into diminished pay and increasing dissatisfaction.

The employers who are instituting these pension systems are acting from excellent

motives, altho these motives are in some degree mixed. The main motive is humanitarian. They desire sincerely to offer to their employees that protection against the hazards of life which will defend them and their families against want. They desire also in many cases to return in this way a part of the profits of the business to which the employee has given his labor. Mingled with these admirable motives are others. Employers hope, for example, that the pension system will be at least a deterrent in the matter of strikes. They hope that it will attach to their service permanently the more skilled and efficient workmen. This mixture of humanitarian and utilitarian motives characterizes all these plans.

Actuaries employed by those who have inaugurated such pension systems have not always made clear the difference in the effect between a free pension system and a contributory system. In some cases it is clear that the financial load ultimately resulting from paying all of the accrued liabilities has not been completely taken into account. But most important of all, the advisers of these gentlemen have not laid emphasis upon the fact that a permanent pension system must rest upon a contractual relation, that its expense must be borne jointly by the worker and his employer, and that in order to accomplish this coöperation, each must share in the control and management of the pension system. Until this coöperation is brought about, no enduring pension system will be developed, nor one in which the workman can feel sure that, looking years ahead, he can count upon a pension. Under present circumstances each pension system is independent of every other, and the pension system tends to restrict a healthy migration between the workers of different companies.

American industrial organizations have hitherto felt unable to establish a pension system on the basis of the participation of employees in its cost and in its management. They have taken this attitude partly because they preferred to retain in their own hands the control of the pension system and feared to be bound by a contractual relationship, but in large measure their action has been due to the distrust and suspicion with which employees have looked upon the pension plan, a distrust due generally to their lack of knowledge of the elementary principles upon which a pension system rests. A pension paid entirely by the company they are willing to accept. It seems to them an operation under which they get something for nothing. Neither the employer nor the employee has realized fully that in actual coöperation their common interests are to be promoted, and that this coöperation can never be real until the pension assumes the form of a contract involving a financial obligation under specific rules both on the part of the employee and on the part of the employer. Until this suspicious attitude of the workman is disarmed, there seems little likelihood that industrial pensions in this country will be placed upon a solid foundation,¹ and the same situation holds with respect to the movement for the establishment of pensions for public school teachers at the cost of the separate states. Here

¹ It is significant, however, that practically all English railways have now adopted the contributory system of pensions.

again the same questions arise. The burden of free pensions would be a heavy load for the richest state, and if once adopted would inevitably put the pay of teachers permanently at a low level. Here also the possibility of a secure and adequate system of protection for school teachers lies in a coöperation between employer and employed. Hitherto, however, when such legislation has been enacted, little has been done to bring out the essential principles upon which a permanent pension must rest. In this matter Massachusetts, under the leadership of an admirable commission, gives the greatest promise.

Under this situation as it exists in our country to-day,—a situation in which the industrial employee and the public school teacher are agitating for free pensions, and are suspicious of any plan which demands their own contribution and offers them participation therein,—one may confidently count that a profession of educated men such as college teachers may lead the way, first in understanding and secondly in inaugurating an insurance and pension system that shall be not only in their own interest but in the interest of the common good. By concerted and intelligent action in this matter college teachers can render a distinct service to the whole cause of social coöperation, and toward the removal of that feeling of distrust between employer and employee which the mention of the pension system very generally arouses. It seems hopeless to expect an intelligent view of a coöperative pension system to be accepted by industrial workers, if such a system does not appeal to the intelligence of university teachers.

THE COÖPERATION OF THE COLLEGE, THE TEACHER, AND THE CARNEGIE FOUNDATION A RÉSUMÉ

The preceding pages have dealt with a number of matters relating not only to the details of insurance and annuities, but also to the underlying social philosophy. As a matter of clearness I endeavor now to bring together briefly the mode of coöperation between the college, the teacher, and the Foundation which this reasoning has suggested. In doing this I have included only so much of detail as is necessary for a clear understanding of the plan.

1. It has been shown that some form of relief including insurance and pensions is justified in the case of college teachers both on the ground of the social and economic conditions under which teachers work and on the ground of their association together in homogeneous groups. In the legal sense college teachers are employees of corporations. They are gathered in groups. As a practical matter it is possible to bring these groups together into a feasible system of coöperation.

2. While it is impossible and unwise in any calling to undertake to anticipate all the hazards of life, the teacher is obligated to protect himself and those dependent upon him against the two main hazards that lie in the way of one who, lacking independent means, depends upon a modest salary; namely, the risk of premature death

during his productive period and the risk of the failure of income-earning power when productivity ceases.

3. The obligation to find protection against these two capital hazards of the teacher's calling rests upon the same moral and economic considerations that determine the responsibility in all human callings. In the case of the teacher this responsibility is shared by two groups, those who work and those who employ. The workers are college teachers, the employers are the governing boards of colleges and universities. Upon these two groups rests the obligation to provide some means within the reach of the teacher by which he may secure for himself and his family protection against the two serious hazards of his employment.

4. This protection can be secured upon a feasible financial scale only by insurance at cost during the productive life of the worker combined with an annuity accumulated during the long years of productive work. Under such an arrangement insurance is used when it is cheapest and most needed, and advantage is taken of the rapid increase of accumulations which comes at the end of a term of years.

5. Individual colleges could not undertake such a scheme. Their teaching staffs constitute groups too small to maintain with safety plans of insurance and annuities, nor could colleges command the capital necessary to afford security. A general plan which in the long run shall be open to all college teachers of sound qualification can be carried out only thru the instrumentality of some organization having sufficient capital to command security and to guarantee a good rate of interest upon the sum total of small contributions. Finally, such an agency must of necessity coöperate in a generous and sympathetic way with both colleges and teachers. It is this function which the Carnegie Foundation may well aspire to fill.

The part that it might take in such a program may be outlined under the following terms:

a. The endowment of the Carnegie Foundation is a gift to the teachers of the United States, Canada, and Newfoundland. The obligation rests upon the trustees of the Foundation to develop in time a system of relief for teachers applicable to all three of these countries. The weaknesses of its present pension plan are pointed out in the following section, but in considering any reorganization of its system of pensions it is essential that the needs of all three of these countries be considered, and that a system be devised not only broad enough to afford participation to the great body of teachers, but flexible enough to meet the needs of teachers in states whose educational problems differ as widely as do those of New York, Quebec, and Newfoundland.

On the other hand, the trustees of the Foundation have already, under certain reservations, committed themselves to a system of pensions in seventy-three institutions in the United States and Canada. It will be necessary to maintain this pension system in these institutions upon the existing rules for a period of time long enough to satisfy the just expectations of the teachers in these institutions. The decision of that period of time would be determined largely by the question of the age at which a

50 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

teacher may profitably pass from the present system of pensions to that which is proposed. For those teachers in the accepted institutions who are beyond this limit the existing system of pensions must be maintained, and the cost of the accrued liabilities for that period of years met. It will require many years to transform completely the present system of Carnegie pensions into that which is proposed.

b. For legal reasons, no less than for convenience, it would be necessary to carry on the business of insurance and annuities thru a sub-agency controlled by the Foundation. This agency might be called The Teachers' Insurance and Annuity Association, incorporated under the laws of the state of New York, with a moderate capital stock owned by the Foundation. In addition to its paid up capital there must be provided a paid up surplus sufficient to ensure complete stability, the surplus to be increased from time to time as the number of teachers who participated grew. Such an agency would do a pure insurance and annuity business under the direct scrutiny of the State of New York Insurance Department. It would offer only legitimate insurance including term insurance to end at age sixty-five or later, ordinary life policies, and life policies paid up in twenty, twenty-five, and thirty years. Such policies would seem to meet completely the needs of teachers. No policy greater than \$25,000 would be written. It would offer annuities under the terms already indicated.

c. For receiving deposits of teachers and accumulations toward annuities there would be organized a second sub-agency, which might be termed The Teachers' Savings Association. The sole function of this agency would be to receive the payments of colleges and of teachers, to invest them in sound securities, and to guarantee an interest equal to that realized by ordinary conservative trusts like life insurance companies. Upon the retirement of the teacher, the accumulated capital would be paid to the insurance and annuity association for the purchase of an annuity. In case of death before sixty-five, the accumulated capital would either be returned to the widow of the teacher or invested in an annuity under specified rules. In case of retirement from the teacher's calling, the accumulated capital would be returned with interest at an agreed rate, let us say, three and one-half per cent.

It is generally agreed by those familiar with the business of life insurance savings that such an agency should guarantee four and one-half per cent. At the present time and for many years to come this rate of interest is likely to be realized by trust funds like those of life insurance companies. Later, should the current rate of interest fall somewhat below this figure for a term of years, there would seem no better use of trust funds like those of the Foundation than to pay from its own income such annual sums as might be necessary to make good the guarantee. If, after a term of years, it was evident that the current rate of interest was permanently lowered, future policies could be written at four and a quarter per cent or such other rate as represented the current income of trust funds conservatively managed. The object is not to offer the teacher an abnormal interest on his savings, but simply to secure to him the benefit of such income as is legitimately obtained by conservative investors, and to protect

his savings against the fluctuations of this rate of income due to temporary causes. Only by some such plan can the teacher hope to obtain a fair income on his savings. He is able to put aside money easily only in the form of monthly payments. The ordinary commercial avenues of investment offer to him no opportunity for investing his savings except at extremely low interest or in the way of speculation. To provide such an agency by which he may help himself is one of the most direct and justifiable means of practical relief.

This plan is an extension of the system which Mr. Carnegie has long carried on. It has been his habit for years to take care of the savings of employees and of many acquaintances of moderate means, guaranteeing them a good interest.

The load which might come from such a provision is a small one compared with the cost of the accrued liabilities which the Carnegie Foundation is at present carrying. For example, if deposits accumulated to the extent of forty millions of dollars and the Insurance and Annuity Association realized but four and a quarter per cent on its investments, the cost to the Foundation of making up the four and one-half per cent would amount to \$100,000 a year.

The process of investment and re-investment would naturally require the constant attention of men qualified for such duties. It is not realized, perhaps, that this duty already falls upon those who administer the financial affairs of the various institutions founded by Mr. Carnegie. These institutions together hold some two hundred millions of dollars of securities, a large part of them being in underlying bonds of the United States Steel Corporation, which under the charter of the Steel Corporation are retired in increasing amounts. This process requires each year the re-investment of large sums of money. Thru the members of its own board and thru those closely associated with it there is available to the trustees of these institutions the best financial advice of the country. The investment of a large sum and its re-investment does not, therefore, present a financial problem different from that with which the trustees are already dealing.

The financial load upon the Foundation would be of the following nature: first the cost of administration, including the two sub-agencies, if not supported by their own surplus. It would undertake to carry the cost of the invalidity pension in the case of all teachers having insurance and annuity contracts, and it would doubtless be called upon to carry some load in connection with the cost of the pensions of widows, altho that load under actuarial computation is found to be a small one. It would pay taxes on the insurance premiums and guarantee a good rate of interest upon all accumulations. In so far as these expenditures would not absorb the income of the Foundation, it is believed that assisting colleges now outside of the accepted list in the matter of their accrued liabilities would be its greatest service, not alone in the money which it would furnish, but in the fact that there would be offered thru its agency a feasible, just, and satisfactory relief system available in general to the college teachers upon the North American continent.

52 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

d. No system of relief involving pensions has ever proven satisfactory to those who are directly interested, and particularly to those who contributed, which failed to offer some participation in the oversight of the system itself. Where colleges and teachers contribute to the support of a system it is just and right that some participation in its oversight be guaranteed them. Without, therefore, going into the details of such a plan, it should be said that the plan of coöperation which has been outlined would involve some form of oversight by a board representing the trustees of colleges and the teachers directly concerned.

It is believed that such a plan as is here outlined is feasible and just, and that it rests upon those principles which alone ensure permanency.

THE PRESENT PENSION SYSTEM OF THE CARNEGIE FOUNDATION

In the preceding sections I have sought to develop a system of insurance and annuities adapted to the circumstances of the American college teacher, a plan sufficiently flexible to be generally available, and one which has back of it a sound social philosophy. I turn now to an examination of the existing pension system of the Foundation, and to the weaknesses which have become apparent in that system during ten years of administration.

The trustees at the beginning of their work had in their possession a gift of money intended for the purpose of paying pensions under such conditions as the trustees deemed wise. They sought to plan a system which would interfere neither with the independence of the teacher nor with that of the college. In fixing the form of pension system they had in mind almost exclusively the needs of the teacher already old and without the means to retire.

The pension system which they have developed in these ten years places the income of the Foundation at the service of the teachers in a list of associated colleges and universities. The following benefits, based upon fixed rules, are provided:

1. An old age pension available at age sixty-five or later and amounting usually to something like sixty per cent of the active pay of the teacher during the last five years of service. The rules are so framed that the teacher having very small pay receives a larger proportion. Thus the pension of a teacher whose salary is \$3000 is \$1900; the pension of the teacher whose salary for the last five years was \$1200 would be \$1000.

2. A disability pension granted in cases of total disability, but only after twenty-five years of service as professor or thirty years of service as professor and instructor. This benefit amounts on the average to something like forty per cent of the active pay.

3. To the widows of teachers who have fulfilled either of these two conditions a pension is paid equivalent to one-half of that which the husband either was receiving or to which he was eligible.

Seventy-three institutions, including in their teaching staffs between five and six thousand teachers, are associated in the enjoyment of these pension benefits. The financial load resulting from these seventy-three institutions during the last five years is shown in the accompanying statement. The average pension amounts to approximately \$1700.

Year	Number Teachers Pensioned	Amount paid in Teachers' Pensions	Number Widows Pensioned	Amount paid in Widows' Pensions	Total Annual Payment for Pensions
1910-11	215	\$341,899.16	52	\$46,720.17	\$388,619.33
1911-12	236	388,338.27	61	53,646.37	441,984.64
1912-13	244	416,626.37	67	62,360.77	478,987.14
1913-14	268	444,966.52	79	69,523.06	514,489.58
1914-15	289	473,969.38	95	80,152.31	554,121.69

The pension system in the associated institutions is, therefore, costing at the present time something over two-thirds of the income available to the Foundation. According to actuarial computations its ultimate load would be somewhere between one million and one million and three-quarters annually, according to the working of certain factors. The principal uncertainties lie in the assumed mortality rate and in the age of retirement. If teachers continue to retire as at present at an average age of sixty-eight, the smaller load would be the probable one; if they retire promptly at the age of sixty-five, the higher limit would be the probable one. Sometime during the next ten years it will be necessary for the Foundation to obtain assistance from the Carnegie Corporation in order to continue the present minimum age of retirement.

In addition to these payments of pensions in associated colleges a considerable number of pensions have been voted to individual teachers in some eighty other colleges. At the present time the income of about two and a half millions of the endowment of the Foundation is employed in the payment of these pensions.

With regard to this system of pensions it may be said that the pensions themselves are in the first place upon a more generous scale than are ordinarily paid. This was deliberately done after long discussion from the conviction, as set forth in the First Annual Report, that it would be more fruitful in college life to maintain a generous system of pensions in a limited number of colleges than an inadequate system in many colleges. The trustees realized from the beginning that the sum of money at their disposal and any sum likely to come to them would provide a free pension system upon the scale adopted for only a limited number of colleges, certainly not more than one hundred out of the many institutions of the United States, Canada, and Newfoundland. They believed, however, that the institution of a pension system upon a generous scale in such a number of representative institutions would result in the general adoption by other colleges of similar pension systems. While this expectation has been realized to some extent, the number of colleges that have instituted pension systems from their own resources is very small.

As one looks over the history of these ten years of free pensions he cannot lose sight

54 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

of the comfort and relief which they have brought to hundreds of teachers. To these teachers and to their families the pension coming unexpectedly in old age after a life in which no adequate provision had been made for failing activity has come as a very gracious and noble charity, and has been accepted in an admirable spirit.

The weaknesses of the present pension system as shown by the experience of ten years are these:

1. Under the existing rules a college teacher acquires a claim for a pension only after twenty-five years of service in professorial grade or thirty years of service as professor and instructor or as an instructor alone. This means that the typical teacher is between fifty-five and sixty years of age before he has, under the rules, any protection for himself or his family. As a system of relief, therefore, the existing pension system touches but a small proportion of the men and women who teach in the colleges and universities. It holds out to the man of thirty a hope of security which is likely to be illusory.

2. The fundamental defect in the existing pension system lies in the assumption that free pensions for college teachers would be permanently justified. In the light of ten years of experience and in the light of the experience of European pension systems this assumption seems to rest upon a defective social philosophy. No permanent advantage will accrue to any calling or any profession by lifting from the shoulders of its members a load which under moral and economic laws they ought to bear.

The man of sixty-five unexpectedly presented with a pension has received a gracious gift. The man of thirty who looks forward over an interval of thirty-five years to its acceptance will pay for it in one way or another before he receives it, and it is in every way to his advantage that there be no obscurity as to either the question of responsibility or financial certainty, and it is further to his advantage that the question of salary shall be entirely separated from the question of pension.

3. While salaries in American colleges have been raised in the last ten years and are likely to be still further raised, the studies of the pension systems which have been a longer time in existence seem to show conclusively that there will develop in the long run a tendency to use the pension as an offset to higher salaries, so that a free pension is likely to be paid for by him who receives it at a higher rate than it has actually cost. One sees illustrations of this to-day in the colleges associated with the Foundation. Thus an instructor at \$1500 a year who is offered \$1800 to go to another college is induced to remain where he is under the expectation of a pension thirty years later, not realizing that the difference in salary will pay for the pension several times over provided, of course, he actually invests that difference in some form of security, a proviso, it is to be said, that is seldom realized.

4. If these conclusions are sound, it is the business of an agency devised for the betterment of the teacher's calling to bring about such conditions as may make for security among the whole body of teachers. This security will never be attained until the individual teacher has a contractual relation with the agency guaranteeing

the pension. In the plan which has been outlined it is provided that each teacher who enters the system shall receive an insurance policy comparable in value to those obtained from the soundest insurance companies, and that he shall obtain an annuity contract equally valid with that of the soundest companies. Under such a conception an individual account must be kept with each teacher who enters the system. No plan under which the teacher looks forward across the interval of thirty years will bring permanent security until the teacher obtains this contractual relation.

5. While the expectation of a free pension many years in the future brings a certain relief to the young teacher, it is clear that this is in the majority of cases illusory. It is also not altogether clear that the expectation of such a pension may not in the long run prove to be an influence making against the homely virtues of self-denial and personal independence. The teacher's ability to carry his load as the head of a family and as a member of society depends more upon foresight, self-denial, and thrift than upon the scale of his salary. Apart from the meagre protection that it affords, it seems unlikely that a free pension system can minister to those personal qualities of independence, foresight, and self-control that a contributory system of insurance and annuities would seem to strengthen. In a word, the social philosophy at the basis of the free pension conception is at least doubtful.

6. The experience of ten years seems to indicate that the age of sixty-five as a minimum age at which retirement may be had is too low. Army officers whose physical vigor is a *sine qua non* of service retire at sixty-four. This age was assumed with the notion that sixty-five would be a minimum limit. In practice, however, it has worked out otherwise. Some colleges make retirement at sixty-five compulsory, an arbitrary procedure and one not justified by experience. In addition many teachers assume that the attainment of this age implies a certain obligation to retire.

The teacher in good health ought to be at the full tide of his usefulness at this age, and unless he has lost his energy and enthusiasm, it is to the interest of the college and of himself to continue his work. Dr. William T. Harris earnestly argued with the trustees of the Foundation at its inauguration not to place the minimum limit for retirement below seventy. Any arbitrary limit set upon the active work of the teacher seems regrettable. One of the pleasantest pictures of a teacher's activity in American colleges during the last few years has been that of Professor Gildersleeve carrying his work at Johns Hopkins with full vigor well into his eighty-third year.

As a practical matter some limit of retirement has to be set, and this should be a matter of arrangement between the college and the teacher. The experience of ten years in the Foundation would seem to indicate, however, that it would have been wiser to have set this limit at sixty-eight or seventy, leaving the college, however, free to retire a teacher at its own expense at the age of sixty-five, the pension to be taken over later by the Foundation. The plan of insurance and annuities which has been described provides in this respect a far greater elasticity, and meets the needs of both the teacher and the college.

56 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

7. At the inauguration of the Foundation the utmost care was taken to remove any appearance of conferring a pension on the ground of charity. This was wise, but any such feeling which may have existed has long since disappeared. No teacher has yet refused a pension because it smacked of charity.

On the other hand, the actual administration of a free pension system on this basis leads to a situation in which the trustees find themselves paying pensions to some who do not need them, and thereby denying them to others who need them very much. The proportion of well-to-do men and women among teachers is not large, but the proportion is probably increasing. It is a somewhat embarrassing use of trust funds when the Foundation adds a \$2500 pension to a comfortable income already possessed by a retired teacher, or if it adds a \$1200 pension to the income of a teacher's widow already in the enjoyment of a competence.

The trustees have not known how to deal with such incongruities without creating embarrassment for the teacher who had a small income of his own and to whom the possession of the pension meant the difference between comparative comfort and discomfort. The question is one which has to be left to the sense of fitness of the individual teacher or president. In the ten years of its history one teacher has declined the pension on the ground that he had a modest competence and preferred to have the pension go to some teacher who stood in real need. In the plan of insurance and annuities which I have described such incongruities cannot occur.

8. The maximum retiring allowance paid by the Foundation is \$4000. For some years after its founding the maximum was \$3000. The financial effect of this change upon the income of the Foundation at the end of the fiscal year, September 30, 1914, is shown in the following statement: Seven pensions were in existence of \$4000 each; twenty-two were between \$3000 and \$4000; seventeen between \$2500 and \$2900; sixty-one between \$2000 and \$2400; two hundred and fourteen between \$1000 and \$2000; and one hundred and six under \$1000. Stating the matter differently, four per cent of all pensioners had pensions of \$4000; twelve per cent had pensions between \$3000 and \$4000; seven per cent between \$2500 and \$3000; twenty per cent between \$2000 and \$2500; forty-five per cent between \$1000 and \$2000; and twelve per cent below \$1000. This includes pensions in all colleges. The raising of the maximum pension, therefore, from \$3000 to \$4000 had affected the pensions of twenty-eight presidents and teachers, resulting in a total annual increase to the pension roll of \$12,955.

While the argument that the man whose salary is reduced from \$8000 or \$12,000 to \$4000 may find more difficulty in readjusting his scale of living than he whose income is reduced from \$3000 to \$1900 may have in it a certain truth, it nevertheless seems doubtful whether in the administration of pensions paid as a free gift the change was desirable. The three thousand dollar pension measures not the sum of money which the retired officer would like to have, but rather the sum of money which an agency founded for the advancement of teaching finds it feasible to allow, from its trust funds devoted in the main to teachers. The question is a little different

from that of a government retiring an army officer, or of a city administration, such as New York, in retiring the president of the City College, whose pension is fixed at \$5000. The matter is not one of great significance either from the standpoint of the financial load or of the relative justice of the allotment of one class of college officers to another, but on the whole it seems clear that a body of trustees administering funds which are the gift of an individual may well hesitate to place the maximum pension at the limit which a state government might very fitly set. In such a system of insurance and annuities as I have proposed no such question could arise. The college president or the professor in receipt of a large salary could with increasing income invest in a larger annuity, an investment which would require no particular self-denial for him.

9. Considering the matter of free pensions from the standpoint of the colleges themselves rather than from the standpoint of the individual, it is clear after ten years of experience that the selection of a small group of such institutions upon which to confer a generous system of pensions to the exclusion of others involves many difficulties. In selecting these colleges the trustees have sought to follow the wishes of the Founder, and to include small colleges, moderate sized colleges, universities of moderate scope, and universities of the strongest American type. It has endeavored also, in accordance with the wishes of the Founder, to distribute these institutions geographically, and to impose some form of educational criterion in their selection. As time has passed, however, it has become increasingly difficult for those charged with the actual administration to select seventy-five or one hundred colleges from among the great number of institutions in the United States and Canada without making discriminations which have little basis in fact. In a given state or province, for example, no conclusive reasons in some cases can be given for discriminating in the matter of pensions between college A and college B. Both are strong colleges, both are doing useful work, both are active human agencies for human upbuilding. There seems no valid reason to prefer one above the other for the conferring of so great a benefit.

10. From the standpoint of the colleges and education the experience of ten years has also brought to light another weakness in the maintenance of a free pension system in a limited number of colleges. This lies in the tendency of such an arrangement to restrict migrations of teachers from one college to another. It is in the interest of education that these migrations be free, and that no difficulty be put in the way of a transfer of a teacher from one college to another. It is particularly desirable that weaker colleges under special arrangements should be able to draw able teachers from the stronger institutions. One such man in a weak college raises the status of the whole group of teachers. The institution of a free pension system in a limited group of colleges seriously hampers such free interchange.

The plan of insurance and annuities that I have endeavored to describe would entirely obviate such a difficulty. Not only would the plan be sufficiently comprehensive to embrace all colleges having the educational and financial strength to partici-

58 INSURANCE AND ANNUITIES FOR COLLEGE TEACHERS

pate in it, but the teacher having an individual contract would take this with him whether he served in one college or another. In this respect he would be entirely independent. What would actually happen under such circumstances would be to the financial gain of the individual teacher, for the weaker college, in its desire to obtain the strong man, would in many cases be willing to pay the whole of his insurance in order to secure his service. Such a plan makes not only for free interchange but for a better financial status of the teacher.

The weaknesses here frankly set forth are those which time and experience have revealed. It is believed that in the plan proposed in the preceding pages these difficulties are completely met.

THE DESIRES OF TEACHERS

Perhaps no more thoroughgoing effort has ever been made to ascertain the actual wishes and the desires of teachers than that which has been carried out by the Foundation in the matter of an insurance and annuity plan. There was sent to each of these five thousand teachers in the associated colleges an enquiry concerning insurance, asking a reply to certain questions and inviting the teacher to add any statement reflecting his own experience, his wishes, or his needs. In addition a letter has been sent to every teacher who has enjoyed the possession of a pension, asking his judgment as a man who had been thru the experience of the teacher and who had retired, as to the working of the pension plan, and as to any features of it which in his judgment might be bettered. The answers to these enquiries have been most illuminating. Many of them have been written with freedom, and they no doubt voice the essential desires and reflect the attitude of the great body of teachers.

The project for furnishing insurance at cost thru the Foundation met with practically unanimous endorsement. Teachers keenly appreciate the opportunity to obtain such insurance, and also the opportunity for a secure investment in the hands of those who are financially responsible.

The desire for insurance expressed by these teachers is very general, but the most common reason given for it is the compulsory character of the insurance payment. Teachers write that they can save for insurance when they can save in no other way. One university teacher of long experience sums it up admirably in the following statement:

“I incline almost to a sort of compulsory insurance because of my experience that some of my best subordinates simply expand their style of living with every increase of salary.”

Very few letters speak of the insurance experience of the writers with entire satisfaction. Mutual companies are commended as being cheaper than others. Limited payments are commended by some. On the other hand, the experience of many teachers with insurance has apparently been unfortunate, and in a great many cases the insur-

ance has served simply for a security to be wiped out by a debt. One professor writes: "I have carried almost all forms of insurance. Nearly all of these have been given up." One professor paid more than one-third of his total income for insurance. Another is burdened with the cost because he is a sub-standard risk. Some complain that inexpensive straight life policies have small cash values. Others state that when insurance has been taken out as a security for a loan, the loan has been hard to pay. Many warnings are given by these teachers against any form of assessment insurance and against the tontine policies issued by various companies. The strong New York companies are particularly criticized in this respect for their past histories. One teacher who had been promised \$3800 on a twenty payment policy by one of these companies states that he received \$1400. In general the teacher who has put his money in any form of endowment insurance, or in other words who has treated insurance as an investment, has been disappointed. Some teachers suggest easy medical examinations or none, so that all may be included.

From all these letters it is evident that the form of insurance most needed is a term insurance that will protect the family up to the time when a retiring allowance is available, and this suggestion has been followed in the plan hitherto outlined. Some form of protection for those who enter teaching late in life will still need to be devised, but such instances are rare, and they will form subjects of special agreement between the teacher and his college.

Perhaps the most common note struck in all these letters, whether from teachers in active service or from those who have retired, is the expression of a desire to participate in the payment of their own pensions rather than to receive them as a free gift. Such an expression of independence and manliness is exactly what one would expect from American college teachers. It voices a sentiment which does credit both to their sense of justice and to their personal dignity.

THE OPINIONS OF RETIRED TEACHERS

To every teacher receiving a retiring allowance there was sent early in the present year a letter, asking him to express his opinion as to the value of the retiring allowance, to give any criticism of the existing rules, and in general to make such suggestions as in his judgment seemed to be for the betterment of conditions, and which would throw light upon the question of when a teacher should retire, as to what sort of satisfaction he found in his retired life, and the financial situation which confronts retired teachers. The answers to this enquiry touched upon all phases of the teacher's problem.

A number of these teachers consider that their retirement was too early; a few say that they were forced out, but most consider that their time of retirement was well chosen. All express a sense of loss at separation from students and comrades. A few welcomed retirement as a relief from heavy burdens, especially those of administration.

Only a single teacher gives expression to the feeling that he has found retirement irksome. Others, according to health and inclination, have enjoyed their well-earned leisure in reading, in rural life, in travel, or have continued in varying measure their former occupations. Physical activity has varied from little or none to that of a professor of seventy-one, who built a house, constructed and played on three tennis courts, and wrote a book, all in one year.

Most of these retired teachers give occasional lectures and addresses, and visit alumni gatherings and philanthropic and religious meetings. Scholarly activity continues in many cases, sometimes with regular attendance in laboratory or study. Literary and scientific production varies from one article in half a dozen years to a substantial volume and sundry papers annually.

Retired teachers' experience is that the difference between salary and retiring allowance prevents unnecessary retirements. In about one-third of the cases of those at present on the retired list the allowance is the sole source of income; altho with care and simplicity of life it is found possible to live upon it, the loss of the former salary has been inconvenient. In general the circumstances of these retired professors approximate entire comfort. In ten cases the Foundation's retiring allowance is supplemented by the universities, which sometimes make up the full equivalent of active pay. In other cases the retiring allowance is helped out by modest inherited property or savings, and in still other cases by earnings from \$100 to \$1000 a year from the activities already referred to, or from business or professional work. Only a single professor states that he finds it necessary to work hard, his expenditures requiring double the amount of his retiring allowance.

The inevitable influence upon salaries of the prospect of a pension is referred to by various retired teachers. The opinion is expressed that this may either increase or decrease salaries. Three professors note an unfavorable effect upon salaries. Others state that, so far as they have observed, salaries have not been affected. It is, however, recognized that a teacher will discriminate in favor of an institution which supports a pension system.

One professor expresses the opinion that the best professors should have full pay for life, altho no criterion for selecting these preferred teachers is offered. The general testimony of this correspondence is that it would be better, and that it should be possible, for the professor to accumulate his own pension. The opinion, however, is expressed that present and prospective salaries are inadequate for this. Debts incurred for study are slowly paid, the usual saving being only for insurance, and that with difficulty. It may be stated in passing that such a plan of saving as has been proposed in the preceding pages would be considered by these teachers quite within the reach of the typical teacher.

A few teachers believe that saving might be encouraged or made obligatory by the contribution of the colleges. A bursar in one institution is firmly of the opinion that teachers are extravagant and improvident, but there is general agreement among

retired teachers themselves as to the stern pressure of family and academic expenses. One professor would deter men from entering teaching unless they had independent income!

One bad result is thought by some of the retired teachers to have been caused by the Foundation, and this is the making of professional tenure firmer by creating a vested financial interest in a prospective pension.

Among the suggestions from retired teachers are a number for modifications in the details of the present system, but these suggestions are by no means accordant, those made by one professor being quite frequently opposed by those from another. Among the suggestions made are the following: the inclusion of denominational colleges, the exclusion of state institutions, no further additions to the accepted list, more retiring allowances outside the accepted list, retirement at a fixed age, retirement at an age later than sixty-five, no obligatory age for retirement, retirement on the basis of service rather than upon age, allowances only in case of financial need and not to those who have independent means, larger allowances for small salaries, earlier disability allowances, temporary disability allowances and earlier retiring allowances for women, increased allowances for late retirement, a maximum allowance of \$2500, the addition of a system of life insurance, a closer emeritus relation to the institution, and checks in payment of pensions to be sent directly to the professor rather than thru the institution.

It is but fair to say that throughout these letters there has been most generous commendation of the present arrangements of the payment of pensions and a hearty appreciation of the influence and the work of the Foundation in general. More than all else, however, the inclusion of widows' pensions in its scheme enlists the gratitude of these retired professors.

